中信银行
CHINA CITIC BANK

20th anniversary

Annual Report 2007

China CITIC Bank Corporation Limited

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

Stock Code: 0998

中信银行
CHINA CITIC BANK

信念。

Determination

Determination is a spirit, making *the* passion for persistence endless.

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Corporate Information

Registered Name in Chinese:	中信銀行股份有限公司 (abbreviated as "中信銀行")
Registered Name in English:	CHINA CITIC BANK CORPORATION LIMITED (abbreviated as "CNCB")
Legal Representative:	Kong Dan
Authorized Representatives:	Chen Xiaoxian & Luo Yan
Secretary to the Board of Directors:	Luo Yan
Representative of Securities Affairs:	Peng Jinhui
Joint Company Secretary:	Luo Yan & KAM Mei Ha, Wendy (ACS,ACIS)
Qualified Accountant:	Lu Wei (MPA, CPA)
Registered Address and Office Address:	Block C, Fuhua Mansion, No. 8 Chaoyangmen Beidajie, Dongcheng District, Beijing, China
Postal Code:	100027
Website:	bank.ecitic.com
Telephone:	86-10-6554-1585
Fax:	86-10-6554-1230
Email:	ir_cncb@citicbank.com
Principal place of business in Hong Kong:	28th floor, Three Pacific Place, 1 Queen's Road East, Hong Kong

Newspapers and Websites for Information Disclosure

A-share:	China Securities Journal, Securities Times, Shanghai Securities News
H-share:	South China Morning Post, Hong Kong Economic Times
Website designated by the China Securities Regulatory Commission (abbreviated as"CSRC") to publish A-share Annual Report:	www.sse.com.cn
Website of Hong Kong Stock Exchanges and Clearing Ltd. (abbreviated as "HKEx") to publish H-share Annual Report:	www.hkexnews.hk

Legal Advisors to the Bank

As to PRC law:	King & Wood PRC Lawyers
As to Hong Kong law:	Freshfields Bruckhaus Deringer

Compliance Advisor

China International Capital Corporation (Hong Kong) Limited

Citigroup Global Markets Asia Limited

Auditors

Domestic accounting firm:	KPMG Huazhen Accounting Firm
Office address:	8th Floor, Office Building Tower 2, Oriental Plaza East, No. 1 East Chang'an Avenue, Beijing, China
Postal code:	100738
International accounting firm:	KPMG
Office address:	8th Floor, Prince's Building, No. 10 Chater Road, Central, Hong Kong

Share Registrar

A-share:	Shanghai Branch of China Securities Depositary & Clearing Corporation Limited, at 36th Floor, China Insurance Mansion, No. 166 Lu Jia Zui East Road, Pudong New Area, Shanghai
H-share:	Computershare Hong Kong Investor Services Limited, at 46th Floor, Hopewell Center, No. 183 Queen's Road East, Wan Chai, Hong Kong

Other Relevant Information

Date of first registration:	7 April, 1987
Date of changing registration:	31 December, 2006
Authority of first registration and changing registration:	State Administration for Industry and Commerce, PRC
Registration Number of Business License:	1000001000600
Institution Number of Finance License:	B0006H111000001
Tax Registration Number:	110105101690725
Certificate of Organization Code:	10169072-5

This report is made in Chinese and English. Should there be any discrepancy in understanding the two language versions, the Chinese version shall prevail.

Financial Highlights

Operating Performance

(Unit: in millions of RMB)

Item	2007	2006	Compared with the same period last year
Operating income	**27,955**	17,927	55.94%
Profit before taxation	**13,172**	7,002	88.12%
Net profit attributable to shareholders	**8,322**	3,858	115.71%
Net operating cash flow	**29,519**	(7,574)	—
Per share			
Basic earning per share (RMB)	**0.23**	0.12	91.67%
Diluted earning per share (RMB)	**0.23**	0.12	91.67%
Net operating cash flow per share (RMB)	**0.76**	(0.24)	—
Net asset value attributable to shareholders (RMB)	**2.15**	1.02	110.78%

Scale Indicators

(Unit: in millions of RMB)

Item	2007	2006	Compared with the same period last year
Total assets	**1,011,186**	706,723	43.08%
Loans and advances to customers	**578,028**	463,167	24.80%
Total liabilities	**927,095**	675,029	37.34%
Deposits from customers	**787,211**	618,412	27.30%
Total equity attributable to shareholders	**84,086**	31,689	165.35%

Profitability Indicators

Item	2007	2006	Compared with the same period last year (+)/(-)
Return on average asset	**0.97%**	0.59%	0.38
Return on average equity	**14.37%**	14.05%	0.32
Cost/income ratio	**34.92%**	39.67%	-4.75
Net interest spread	**2.95%**	2.53%	0.42
Net interest margin	**3.12%**	2.62%	0.50

Asset Quality Indicators

Item	2007	2006	Compared with the same period last year (+)/(-)
Non-performing loan (NPL) ratio	**1.47%**	2.50%	-1.03
Provision coverage	**110.01%**	84.62%	25.39
Allowance/total loans	**1.62%**	2.11%	-0.49

Capital Adequacy Indicators

Item	2007	2006	Compared with the same period last year (+)/(-)
Capital adequacy ratio	**15.27%**	9.41%	5.86
Core capital adequacy ratio	**13.14%**	6.57%	6.57
Total equity/total assets	**8.32%**	4.48%	3.84

Five year financial summary

(Unit: in millions of RMB)

Item	2007	2006	2005	2004	2003
Operating performance					
Operating income	**27,955**	17,927	13,655	11,146	8,368
Profit before taxation	**13,172**	7,002	5,453	4,061	2,283
Net profit attributable to shareholders	**8,322**	3,858	3,083	2,427	1,419
Net operating cash flow	**29,519**	(7,574)	(7,650)	30,256	15,083
Per share					
Basic earning per share (RMB)	**0.23**	0.12	0.10	0.08	—
Diluted earning per share (RMB)	**0.23**	0.12	0.10	0.08	—
Net cash flow per share from operating activities	**0.76**	(0.24)	(0.29)	1.70	1.07
Net asset value per share attributable to shareholders (RMB)	**2.15**	1.02	0.87	0.60	0.38
Scale Indicator					
Total assets	**1,011,186**	706,723	594,602	495,445	396,817
Loans and advances to customers	**578,028**	463,167	370,260	306,879	257,313
Total liabilities	**927,095**	675,029	571,377	484,682	391,415
Deposits from customers	**787,211**	618,412	530,573	435,020	345,356
Total equity attributable to shareholders	**84,086**	31,689	23,220	10,759	5,399
Profitability Indicators					
Return on average asset	**0.97%**	0.59%	0.57%	0.54%	—
Return on average equity	**14.37%**	14.05%	18.15%	30.04%	—
Cost/income ratio	**34.92%**	39.67%	41.11%	39.11%	40.86%
Net interest spread	**2.95%**	2.53%	2.38%	2.37%	2.39%
Net interest margin	**3.12%**	2.62%	2.45%	2.42%	2.40%
Asset Quality Indicators					
Non-performing loan (NPL) ratio	**1.47%**	2.50%	4.14%	6.28%	9.02%
Provision coverage	**110.01%**	84.62%	79.88%	77.58%	72.28%
Capital Adequacy Indicators					
Capital adequacy ratio (CAR)	**15.27%**	9.41%	8.11%	6.05%	8.90%
Core capital adequacy ratio	**13.14%**	6.57%	5.72%	3.33%	7.63%

信心。Confidence

Determination is a power, *fulfilling* ambitious dreams.

Mr. Kong Dan
Chairman

Right at the 20th anniversary, China CITIC Bank successfully launched a dual listing in Shanghai and Hong Kong. Preceding the successful listing were completed, the Bank realized the joint-stock reform through absorbing investment from CITIC International Financial Holdings Limited, introducing the world renowned Banco Bilbao Vizcaya Argentaria SA as a strategic investor, and successfully launching the simultaneous listing of A+H Shares. These historic milestones were achieved in one year because of the full support from regulatory bodies, shareholders from both home and abroad, customers and all walks of the society, and also because of the favorable macro economic and financial situations. Being a new historic starting point, 2007 has become a history-making year in the development of China CITIC Bank.

Since the listing, the Bank has retained a robust momentum of growth for various business lines and has achieved a substantial development. I hereby, on behalf of the Board of China CITIC Bank, report with pleasure on our encouraging 2007 performance to the shareholders. The Bank's shareholders are entitled to RMB 8.322 billion post-tax profit, doubling that of last year. Despite the large share capital raised, Return on Average Assets (ROAA) rose to 0.97%; Return on Average Equity (ROAE) rose to 14.37%. The Bank considerably expanded supplementary channels of capital from the market, hence the capital strength was significantly enhanced. The capital adequacy ratio and the core capital adequacy ratio reached 15.27% and 13.14% respectively.

As a flagship unit in developing CITIC Group comprehensive financial service, we keep a close contact with other financial subsidiaries engaged in securities, trust, fund, insurance, etc. under CITIC Group. We are forming unique comprehensive competitive edges through giants joining hands and complementing each other. Meanwhile, we also emphasize cooperation with non-financial subsidiaries under CITIC Group to realize the overall synergy of the Group in a win-win way.

The cooperation between our bank and our strategic investor, Banco Bilbao Vizcaya Argentaria SA has been actively progressing in auto financing, private banking, risk management, talent training, etc., which will certainly further enhance our value–creating capability and international involvement. Based on The New Basel Capital Accord and other internationally advanced standards, we keep improving risk management and internal control system, forging the three platforms of risk culture, system, and technology, and focusing on establishing an independent, comprehensive, vertical and specialized risk management system.

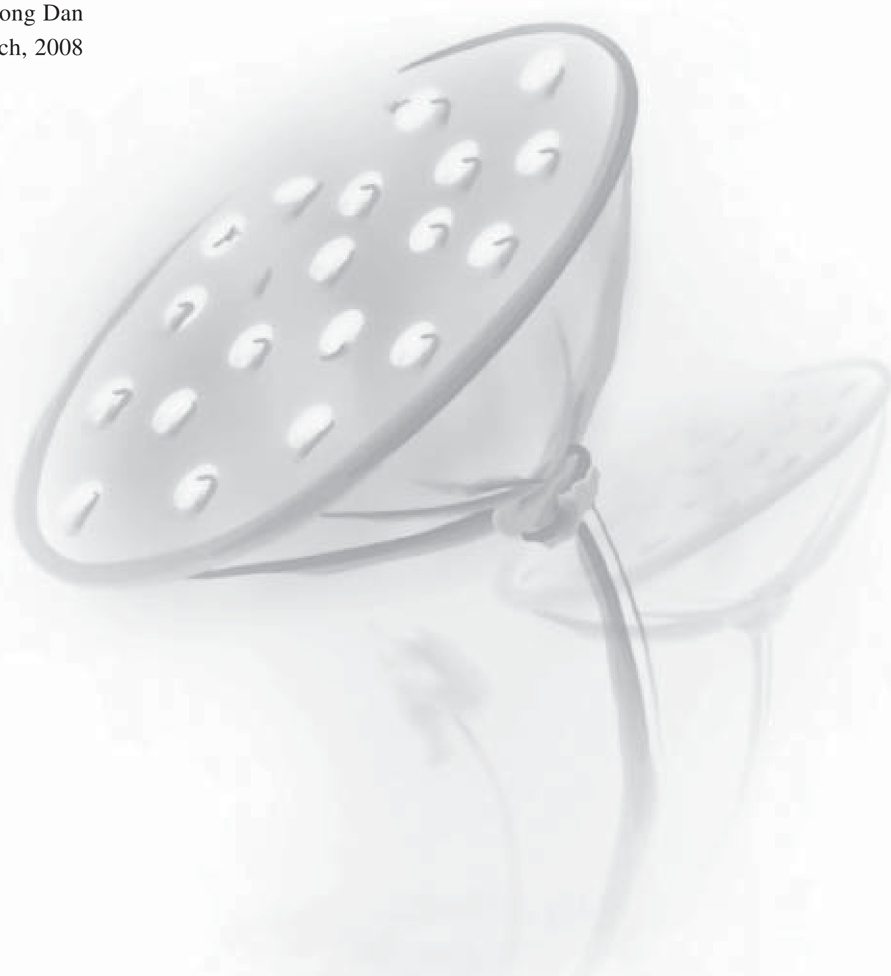
With the diversification and internationalization of shareholders, the Bank's corporate governance experienced fundamental changes. Throughout the in-depth system reform after listing, we have been improving the Bank's corporate governance structure and system by adhering to the strictest regulatory requirements and referring to the world's best practice of corporate governance. The Bank strengthens its investor relationship management and information disclosure system construction by conforming to internationally advanced standards; the channels connecting the Bank and the capital markets and investors from home and abroad are kept open. In 2007, other senior executives and I had extensive and in-depth communication with investors and analysts around the world, which I found quite beneficial.

Looking ahead, the development of 2008 world economy is faced with many uncertainties, which may impact China on its opening-up policy. However, China's economy still demonstrates a robust growing momentum, which provides a favorable condition for the development of China CITIC Bank. Equipped with long-term corporate culture accumulation, rich industry experience, and outstanding track record, and professional banker team with exploring spirit, China CITIC Bank is better positioned to seize the market opportunity and implement its strategy, hence to achieve a greater success.

At the new starting line, China CITIC Bank will constantly improve its cooperate governance, enhance its growing capability, increase the Bank's market capitalization, repay the trust and support of shareholders and the society, hence to contribute more to the well-being of the nation and the people.

I am sincerely grateful to our customers, shareholders, peers, and friends from all walks of life for your consistent attention and support. I hope, with your trust and support, to witness and share with you a greater success of China CITIC Bank.

Chairman: Kong Dan
26 March, 2008



信賴。Trust

Determination is a commitment,
retaining the trust *between*
our bank *and* customers.

Mr. Chen Xiaoxian
President

The year 2007 witnessed the global economy's stable and healthy development as well as a continued rapid growth of the domestic economy. Throughout the year, the Bank adjusted operating and management measures in response to the fluctuations in both of the international and domestic markets as well as the changes in China's macro-economic regulatory measures. We also strengthened the risk management to maintain the continuous and healthy development of business.

Under the visionary leadership of China Banking Regulatory Commission and the Bank's Board of Directors, the Bank seized the favorable opportunities and successfully achieved simultaneous A and H-Share listing. Therefore, the Bank registered a good momentum of growth in all business areas and realized a big leap forward ever in history.

Successful A and H-Share listing, and essential change in the Bank's corporate governance structure With the firm support from China CITIC Group, the Bank successfully completed the "three steps" of the joint-stock reform, introducing strategic investor and listing in stock markets within the short period of only one year and achieved an essential improvement in corporate governance. As at 31 December, 2007, the capital adequacy ratio of the Bank reached 15.27% with the core capital adequacy ratio climbing to 13.14%, which set a solid foundation for further development.

Capital scale exceeding RMB1 trillion and marked an enhancement of comprehensive strength As at 31 December, 2007, the Bank's total asset scale amounted to RMB1,011.186 billion, up by 43.1% over the previous year stepping up a historical stage in terms of comprehensive strength. In 2007, the Bank newly built three tier-1 branches, one tier-2 and 40 sub-branches showing an obvious acceleration in the expansion of market network. With its outstanding performance, the Bank won the regional award by The Asian Banker magazine press for two consecutive years, the title of "2007 Most Competitive Bank" by CAIJING magazine press, and "Best Foreign Exchange Trader in China" by Asian Money magazine press for two consecutive years. International authoritative rating agencies such as the Moody's and Fitch Ratings have raised the Bank's rating.

Greater profitability and doubled net profit The profit of the whole bank has reached a historical peak with 115.7% increase over the previous year. It laid a stronger foundation for profitability and even more diversified profitability sources. Firstly, the Bank withdrew a provision of RMB2.988 billion with a consolidated coverage up to 110.01%, setting a more solid profit foundation. Secondly, the operating non-interest income of the Bank amounted to RMB3.226 billion, 98.2% up from the previous year and accounted for 10.97% of the total operating income, 1.98 percentage points up from the previous year marking a further improvement in income structure. Thirdly, while maintaining a rapid development in corporate banking income, the private banking income proportion rose to 17%, up by 4 percentage points from the previous year indicating a more diversified income source.

Continuous leading position in corporate banking business with high quality growth in coordinated promotion The corporate deposit balance amounted to RMB640.005 billion with a growth rate of 24.87%; the corporate loan balance amounted to RMB501.939 billion with a growth rate of 20.01% while emphasizing on structure adjustment, and maintaining the leading position in the market. The Bank set up professionally operated Investment Banking Center, Auto Financing Center and Custodian Service Center according to the quasi-business sector system. In 2007, income from investment banking business reached RMB0.32 billion with an increase rate of 89.35%; the auto financing service had provided accumulatively around RMB60 billion credit loan support for auto dealers taking the biggest market share among domestic peers and nil non-performance loan ratio; gains from the custodian service amounted to RMB84.765 billion, up by 588.14% from the previous year and generated an income of RMB0.135 billion with an increase of 743.75% from the previous year.

Rapid growth and remarkably enhanced market recognition in retail banking business In 2007, the Bank has gained profound achievements in three profitability making sectors including individual wealth management, consumer credit and credit card business. 163 wealth management products were released throughout the year with a turnover of RMB103.8 billion and 510,000 clients including 420,000 newly developed clients in the year. The balance of private deposit amounted to RMB76.089 billion, up by 57.29% from the previous year; private loan reached 13.16% in total loans, up by 2.8 percentage points from the previous year. Accumulated credit card issuing quantity exceeded 4.22 million including 1.94 million newly issued cards, and the annual transactions amount recorded RMB23.4 billion; following the first profit realization in December 2006, the Bank realized a profit of RMB15.6 million and became one of the fastest domestic commercial banks to entering the profiting period. Retail banking online network building developed rapidly. There were 444,000 advanced personal Internet banking users in 2007, 6.8 times more than that of the previous year; personal Internet banking transactions volume amounted to RMB21.6 billion, eight times more than that of the previous year. The replacement rate of online transactions and automatic equipment transactions reached 47%, showing a profound rise in application of high-tech in banking business.

Notable increase in market share for international business and treasury & capital business, with more apparent advantages The Bank achieved USD93.4 billion of import payments and export proceeds in international trade with an increase of 42%, and the market share up to 5.3%. The compound growth rate of the international settlement business exceeded that of the international trade for three consecutive years. The exchange settlement and sale transactions in treasury business amounted to USD73.9 billion with an increase rate of 39%; the Bank had been one of the top among all domestic and foreign banks in foreign exchange market making transactions volume. As an active small and medium-sized joint-stock commercial bank in the bond market, the Bank could effectively avoided the US sub-prime mortgage loan crisis as we did not have any direct investment in US sub-prime mortgage-backed bonds. This especially proved that our investment strategy and management concept were in compliance with the basic requirements for commercial banks to maintain a proactive operation.

Achieving another historical breakthrough in risk management, taking the lead among domestic peers The NPL balance of the Bank reduced to RMB8.492 billion achieving a net fall for three consecutive years with the write-off excluded. The NPL ratio fell to 1.47% and provision coverage reached 110.01%, realizing the IPO commitments two years earlier.

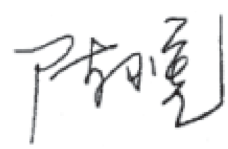
Enhanced fundamental management and prominent improvement in modernized management In information technology development, the Bank had completed the third generation core accounting system optimization and data centralization, bringing a successful end to a six-year project of building up the third generation of accounting system. In asset and liability management, in response to the tendency of interest rate rise, the Bank shortened the loan re-pricing cycle from ten months to six months and greatly reduced the negotiated deposit of RMB17.31 billion to reduce fund cost. In liquidity management, the Bank took initiative in liquidity management allocation to effectively deal with the great fluctuation of domestic and foreign currency position. In risk measurement, the credit risk rating system for corporate clients was successfully implemented, whose design in technology, rating coverage and observing and testing time is in compliance with the New Basel Capital Accord to make it reach the advanced level among domestic banks.

Making full use of the comprehensive financial services platform and the unique advantage became obvious In corporate banking business, the Bank strengthened cooperation with other subsidiaries of China CITIC Group in business fields such as short-term financing securities, ABS, custodian service and syndicated loan. In retail banking business, the Bank had gained newly increased 348,000 clients of third party custody depository and bank-securities transfer, among which 93% came from securities companies of China CITIC Group in 2007. Together with financial subsidiaries under China CITIC Group, the Bank developed and sold 79 wealth management products with an amount of RMB102.9 billion generating RMB0.594 billion non-interest income.

After several years' effort, we have reached a brand new development stage for China CITIC Bank and gradually formed the modern commercial bank operating concept with unique features of China CITIC Bank, gradually established the corporate governance structure and management operating system of modern commercial banks, gradually achieved a great improvement in market and supervision ratings, gradually acquired a strong market influence, gradually formed a more balanced and coordinated business development framework, gradually established a more effective and comprehensive risk management system and gradually strengthened the foundation for long-term, sustainable and high profitability.

As a new historical development platform, the successful A and H-Share listing brought China CITIC Bank to face scrutiny from international and domestic capital markets. Year 2008 is the first complete fiscal year after the Bank entered the capital market. In this year, the management team are confident about returning shareholders, investors and clients with better business results to secure investors' confidence in the future development of China CITIC Bank, which is also our primary important obligation and commission!

I would like to take this opportunity to extend sincere gratitude on behalf of the Bank's management team, to the Board of Directors and the Board of Supervisors for their great help and guidance, to all the investors and the public from all walks of life for their trust and support, and to the staff of China CITIC Bank for their continuous endeavor and contribution!



President: Chen Xiaoxian
26 March, 2008

List of Honors

First Half of 2007

January

- The China CITIC Magic Credit Card won the award of "Influence 2007 Fashionable Wealth Management Brand" in the selection series of "Influence 2007 Fashion Festival".

June

EXCELLENCE IN RETAIL FINANCIAL SERVICES AWARDS 2007

- The Bank was awarded "China Branch Outlet Innovation Achievement Award" in the selection of "2007 Asia-Pacific Retail Financing Service Outstanding Award" by The Asian Banker magazine press.

March

- The Customer Service Center of the Credit Card Center won the award of "2007 China Best Call Center" and "2007 China Call Center Business Outstanding Contribution" by China Information Promotion Alliance & Customer Relationship Management Commission.

Second Half of 2007

August

ASIAMONEY

- The Bank was selected the “Best Foreign Exchange Service Provider in China” for two consecutive years by Asia Money magazine press.

September

- The Bank won the award of “2007 China Growth Service Institution” in the 4th China International Financial Forum.
- The Bank’s corporate banking service main brand, “CITIC Wealth Ladder” won the award of “2007 China Prominent (small and medium-sized enterprises) Financial Service Product” in the 4th China International Financial Forum.
- The Bank’s wealth management product marketing case won “2006–2007 China Outstanding Marketing Award” organized by the Economic Observer Newspaper Press and Hong Kong Management Assocation.

November

- The “CITIC Wealth Ladder” and “Xin E Tong” were awarded “The Most Influential Brand in China Financial Service Industry” and “Top 10 Most Influential Internet Banking Brand” respectively in China Brand Influence Annual Summit Forum.
- The “China CITIC Wealth Management” was honored the top 10 “2007 Best Brand Building of China” jointly held by the INTERBRAND, the world biggest brand consulting company, and 21st Century Business Herald.
- The Bank was awarded “Top 10 Chinese Banks” in the selection activity “2007 List of Financial Brand Value” by China Business News Press.

December

- President Chen Xiaoxian was awarded the “Top Ten Financial Figures” for the third consecutive year by domestic prestigious magazine press The Banker.
- Syndicated Loan project of the Bank was awarded as the “2007 Best Loan in China” by International Finance Review (Asia).
- The Bank’s wealth management brand, “CITIC Wealth management” brand building case won the award of “China Top Ten Financial Marketing” by The Chinese Banker magazine press.

Report of the Board of Directors

Principal Business

The Bank is engaged in banking and related financial services.

Major Customers

Up to the end of the reporting period, the biggest five customers contribute less than 30% of the total interest income and other operating income.

Profit and Dividends Distribution

The Board of Directors of the Bank proposed to distribute a total dividend of RMB2.088 billion for the fiscal year ended on 31 December, 2007. The total share capital of A-share and H-share shall be taken as base, the cash bonus of every 10 shares shall be RMB0.535 (including tax), and calculated and declared in Renminbi. Renminbi shall be used to pay the A-share shareholders, and Hong Kong dollar shall be used to pay H-share shareholders. The dividend of H-share shall be delivered in Hong Kong dollar, with the sum calculated in accordance with the average benchmark exchange rate of Renminbi released by the People's Bank of China one week (including the shareholders' general meeting day) prior to the convening of the shareholders' general meeting. The aforesaid profit distribution plan upon review and approval shall be submitted to Annual Shareholders General Meeting for review and implementation. The base day for this dividend payment is 12 June, 2008, i.e. the dividend of this time shall be paid to all shareholders registered in the Company's list of shareholders after close on 12 June, 2008.

The transfer registration of the Bank's shareholders shall be temporarily stopped from 13 May, 2008 (Tuesday) to 12 June, 2008 (Thursday) (including the beginning and ending day). In case that the H-share shareholder wants to enjoy the right of being paid the final dividend, such shareholders are required to deliver the transfer documents and the related shares to Computershare Hong Kong Investor Services Limited (CHIS) prior to 4:30 pm on 9 May, 2008. The address of CHIS is Room 1712–1716, Floor 17, Hopewell Center, 183, Queen's Road East, Wan Chai, Hong Kong.

Reserve

The details of reserve changes as at the end of 2007 is set out in item 27 of the financial statement in this annual report.

Distributable Reserve

The detailed information on distributable reserve is included in the consolidated statement of changes in equity of the financial statement.

Financial Highlights

A summary of the operation performance and assets and liabilities of the Bank during the five years ended on 31 December, 2007 can be found in the "Financial Highlights" of the annual report.

Donation

The Bank had made donations totalling RMB7.73 million during the reporting period.

Property and Equipment

The detailed information on changes in property and equipment ended on 31 December, 2007 is included in Note 20 to the financial statement of the annual report.

Fixed Assets

The detailed information on fixed asset changes ended on 31 December, 2007 is included in Note 20 to the financial statement of the annual report.

Subsidiaries

The holding subsidiary China Investment and Finance Limited ("CIFL") was established in 1984, with its registration region and main operating location in Hong Kong Special Administrative Region, and obtained the "Money Lender License" issued by the Companies Registry of Hong Kong government. Its business scope includes capital market investment, loan, financial consulting, investment banking, and direct investment. As at the end of 2007, its registered capital was HKD25,000,000, the total asset in RMB was 652.32 million, and the net profit in RMB was 8.03 million.

Public Float

The detailed information on changes in share capital of the Bank during the reporting period is included in Note 27 to the financial statement of the annual report.

According to the public information as at the date on which the annual report is printed, the Board of Directors of the Bank believes that the Bank has enough public float, which conforms to the minimum requirement by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and the waiver granted by the Hong Kong Stock Exchange when the Bank was listed.

Purchase, Sale or Redemption of Shares

The number of H-shares issued by the Bank as part of its initial public offering via Hong Kong Stock Exchange on 27 April, 2007 was 4,885,479,000. On 30 April, 2007, another 732,821,000 H-shares were issued on the exercise of the over-allotment option.

The Bank issued 2,301,932,654 A-shares on April 4, 2007. The A-shares were listed and started trading on 27 April, 2007 on the Shanghai Stock Exchange.

Besides the above disclosure, the Bank and its subsidiaries have not purchased, sold or redeemed any shares of the Bank.

Pre-emptive Rights

The Articles of Association of the Bank has not established any compulsory rules on pre-emptive rights. According to the Articles of Association, to increase its registered capital, the Bank can issue stocks privately or publicly, allocate or issue new shares to the current shareholders, transfer capital reserves to increase stock shares and other means allowed by laws and administrative regulations as well as other ways approved by the relevant authorities.

Use of Proceeds from the IPO

According to the Reply to CITIC *Bank on Issuing Stocks and Listing in Domestic and Overseas Market* from China Banking Regulatory Commission, the *Circular on the Approval of Initial Public Offering of China CITIC Bank Corporation Limited and Circular on the Approval of Issuing Overseas-listed Foreign Shares of China CITIC Bank Corporation Limited* from

China Securities Regulatory Commission, the Bank issued 2.302 billion A-shares through IPO at the price of RMB5.8, and 5.618 billion H-shares at the price of HK$5.86. A-shares and H-shares were issued at the same price, based on the adjustment of exchange rate. The proceeds raised via A-share and H-share issuance amounted to around RMB44.836 billion (with the listing fees deducted).

All proceeds raised were used to increase the Bank's capital and enhance the capital adequacy ratio and risk-resisting capacity of the Bank.

Material Investment of Funds not Raised from the IPO

During the reporting period, the Bank did not have any material investment of funds not raised from the IPO.

Issuance of Shares

During the reporting period, the detailed information on the Bank's issuance of shares is included in "Changes in Share Capital and Shareholding of the Substantial Shareholders — Issuance and Listing of Shares" of the annual report.

Corporate Governance

The Bank endeavors to establish an excellent corporate governance mechanism and believes that it is very important to protect the interests of the shareholders by adopting corporate governance of international level. The information concerning the Bank's conformability with the "Code on Corporate Governance Practices" in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") is included in the section headed "Report of Corporate Governance".

Connected Transactions

The connected transactions of the Bank in 2007 are briefly described as following:

Exempt Continuing Connected Transactions

1. **Commercial banking services and products provided to connected persons in ordinary and usual course of business of the Bank**

   The Bank provides the clients with commercial banking services and products in ordinary and usual course of business. These services and products include accepting deposits (including demand deposit, time deposit and notice deposit) and long term loans, short term loans, consumer loans and mortgage loans as well as other credit financing offered by the Bank.

   Deposits

   The clients who place deposit with the Bank include the promoters, directors, supervisors and senior management of the Bank and those of the subsidiary of the Bank, each of ex-director of the Bank and subsidiary of the Bank who was a director within 12 months preceding the date of listing of H-shares of the Bank and their respective associates, each of whom will be a connected person under Chapter 14A of the Listing Rules. Depositing money in the Bank by the connected persons of the Bank will form the continuing connected transactions of the Bank under Chapter 14A of the Listing Rules.

The placing of deposits by the connected persons of the Bank with the Bank in the ordinary and usual course of business is made on normal commercial terms that are comparable or no more favorable than those offered to independent third parties. The deposits will not be secured by the Bank's assets. Such placing of deposits will be exempt continuing connected transactions under Rule 14A.65(4) of the Listing Rules (financial assistance provided by a connected person in the form of deposits placed with a listed issuer for the benefit of a listed issuer on normal commercial terms (or better to the listed issuer) where no security over the assets of the listed issuer is granted in respect of the financial assistance) , and thus will be exempted from the reporting, announcement and independent shareholders' approval requirements contemplated under Rules 14A.35 and 14A.45 to 14A.48 of the Listing Rules.

Loan and credit financing

The Bank provides loan and credit services including credit card, loan, entrusted loan, guarantee services, security for third party loans and discount bills to the clients on normal commercial terms in reference to the current market interest rate in ordinary and usual course of business. Clients using loans and credit financing of the Bank include the promoters, directors, supervisors and senior management of the Bank and those of the subsidiary of the Bank, each of ex-director of the Bank and subsidiary of the Bank who was a director within 12 months preceding the date of listing of H-shares of the Bank and their respective associates, each of whom will be a connected person under Chapter 14A of the Listing Rules. Receiving loans and credit financing services from the Bank by the connected persons of the Bank will form the continuing connected transactions of the Bank under Chapter 14A of the Listing Rules.

The provision of loans and credit financing by the Bank to the connected persons of the Bank in the ordinary and usual course of business is made on normal commercial terms that are comparable or no more favorable than those offered to independent third parties. To offer the loans and credit financing falls to the exempt continuing connected transactions under Rule 14A.65(1) of the Listing Rules (financial assistance provided by a listed issuer in its ordinary and usual course of business for the benefit of a connected person on normal commercial terms), and thus will be exempt from the reporting, announcement and independent shareholders' approval requirements contemplated under Rules 14A.35 and 14A.45 to 14A.48 of the Listing Rules.

2. Other exempt continuing connected transactions

All other continuing connected transactions of the Bank in 2007 fall within the threshold under Rule 14A.33(3) of the Listing Rules and therefore they are exempt from the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

Review and Confirmation of the Continuing Connected Transactions by the Independent Non-Executive Directors of the Bank

The Independent Non-Executive Directors of the Bank have reviewed the continuing connected transactions in the reporting period and confirmed that:

1. The transactions were the ordinary business of the Bank;

2. The transactions were conducted on normal commercial terms; and

3. The transactions were carried out in accordance with the terms of relevant agreements, and such terms were fair and reasonable and in the interest of the Bank's shareholders.

Shares, Underlying Shares or Debentures or Short Positions of the Bank Held by the Directors, Supervisors and Senior Management

During the reporting period, any interests or short positions in the shares, underlying shares or debentures of the Bank or any associated corporation (within the meaning of Part XV of the Securities Futures Ordinance) as recorded in the register required to be kept by the Bank pursuant to section 352 of Securities Futures Ordinance or as otherwise notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set put in Appendix 10 of the Hong Kong Listing Rules which were held by the Directors, Supervisors, and Senior Management are as follows:

Director's Name	The Associated Share-holding Corporation	Nature of Interests	Type/Number of Shares	Percentage of Shareholding to All the Issued Shares of Associated Corporation
Kong Dan	CIFH	personal interests	4,800,000 shares[(L)] common shares with a par value of HK$1.00	0.08%
	CITIC Resources Holdings Limited	personal interests	20,000,000 shares[(L)] common shares with a par value of HK$0.05	0.38%
Dou Jianzhong	CIFH	personal interests	2,940,000 shares[(L)] common shares with a par value of HK$1.00	0.05%
Chan Hui Dor Lam Doreen	CIFH	personal interests	6,444,689 shares[(L)] common shares with a par value of HK$1.00	0.11%
Chang Zhenming	CIFH	personal interests	2,560,000shares[(L)] common shares with a par value of HK$1.00	0.04%
Chen Xiaoxian	CIFH	personal interests	320,000 shares[(L)] common shares with a par value of HK$1.00	0.01%
Ju Weimin	CIFH	personal interests	320,000 shares[(L)] common shares with a par value of HK$1.00	0.01%

[(L)] stands for long positions

Except for the above disclosure, the directors, supervisors and senior management of the Bank had no interests or short positions in the shares, underlying shares or debentures of the Bank or any associated corporation within the reporting period.

Interests of Substantial Shareholders

Please refer to the disclosure in "Changes in Share Capital and Shareholding of the Substantial Shareholders —Interest of Substantial Shareholders".

Directors' and Supervisors' Interests in Contracts of Significance

No contracts of significance, in relation to the Bank's business to which the Bank, its holding companies, or any of its subsidiaries or fellow subsidiaries was a party and in which a Director or a Supervisor had a material interest, whether directly or indirectly, during the reporting period.

Service Contract of Directors and Supervisors

There is no service contract unable to be terminated within one year or service contract that requires any compensation to terminate in addition to the statutory compensation signed between any director or supervisor and the Bank or any of its subsidiaries.

Emoluments of Directors, Supervisors and Senior Management

The Emolument of the Bank's directors and supervisors is determined by the Shareholders' General Meeting. The emoluments of the Bank's senior management is determined by the Board of Directors. The bank emphasizes linking performance result to position valuation and has defined the emolument structure, annual basic and performance emoluments of directors, supervisors and senior management. A comprehensive appraisal will be conducted based on aspects such as financial indicator achievement, risk control and internal management. Allowance is paid to independent non-executive directors. Pursuant to the related PRC laws and regulations, the Bank participated in various legal pension scheme organized by the PRC Government for the staff including executive directors, employee supervisors and senior management. Details of the emoluments of directors, supervisors and senior management are included in the chapter of "Directors, Supervisors, Senior Management and Staff".

Tax Deduction and Exemption

For tax deduction and exemption of the Bank, please refer to "Management Discussion and Analysis — Financial Statement Analysis".

Auditors

Information on auditors of the Bank is included in the chapter of "Corporate Governance Report". At the forthcoming shareholders' annual general meeting, the resolution of appointing the auditors of the Bank will be submitted for approval.

Members of Board of Directors

Directors of the Bank as at the end of the reporting period:

Executive Directors:	Cen Xiaoxian, Wu Beiying
Non-executive Directors:	Kong Dan, Chang Zhenming, Wang Chuan, Dou Jianzhong, Chan Hui Dor Lam Doreen, Ju Weimin, Zhang Jijing, José Ignacio Goirigolzarri
Independent Non-executive Directors:	Bai Chong-En, John Dexter Langlois, Ai Hongde, Xie Rong, Wang Xiangfei

Relationship among Members of the Board of Directors

There is no material financial, business, family or other relationship among members of the Board of Directors.

Director's Interests in Competing Business

None of the directors of the Bank directly or indirectly has any interest that constitutes or may constitute a competing business of the Bank.

Authorized by the Board of Directors
Kong Dan
Chairman

Report of the Board of Supervisors

Board of Supervisors Meetings

Meetings of the Board of Supervisors

During the reporting period, the Board of Supervisors held three meetings and reviewed and passed three proposals including "2006 Annual Working Report by Board of Supervisors", "2007 Interim Report" and "2007 3rd Quarter Report" etc.

Attendance of Supervisors in Meetings

Board Members	Actual Attendance/ Required Attendance	Attendance Rate (%)
Liu Chongming(2)	3/3	100%
Wang Shuanlin	3/3	100%
Zhuang Yumin	3/3	100%
Li Qianxin(3)	1/1	100%
Zheng Xuexue(2)	2/2	100%
Guo Ketong(4)	3/3	100%
Lin Zhengyue	3/3	100%
Deng Yuewen	3/3	100%
Li Gang	3/3	100%

Notes: (1) According to the Articles of Association of China Citic Bank, supervisors can entrust other supervisors in writing to present at meetings of the Board of Supervisors by proxy.

(2) Ms. Liu Chongming, chairman of the Board of Supervisors, and Mr. Zheng Xuexue did not attend the meeting on 22 August, 2007 in person and entrusted other supervisors to attend the meeting and execute the voting right on behalf of them.

(3) Mr. Li Qianxin resigned from the position of supervisor from 2 August, 2007 because of his retirement, and Mr. Zheng Xuexue was elected as replacement supervisor of the Bank.

(4) Mr. Guo Ketong did not attend the meeting on 26 October, 2007 in person and entrusted other supervisor to attend the meeting and execute the voting right on behalf of him.

Works Performed by the Board of Supervisors

During the reporting period, the Board of Supervisors discharged its duty of supervising, inspecting and overseeing the Bank's operation, financial activities, performance of the Board of Directors and the management team, in accordance with the PRC Company Law ("the Company Law" hereinafter) , Articles of Association of China CITIC Bank Corporation Limited (the "Articles of Association") and relevant regulations by the regulatory authorities, so as to protect the interests of shareholders and depositors. All supervisors were diligent in discharging their responsibilities and the work of Board of Supervisors for 2007 was completed in full aspects.

Holding meetings of the Board of Supervisors and supervising the Bank's financial affairs regularly. Three meetings of Board of Supervisors were held throughout the year and proposals including "2006 Annual Working Report of Board of Supervisors", "2007 Interim Report" and "2007 3rd Quarter Report" were reviewed and passed. The Board of Supervisors also made revising comments in written.

Strengthening the investigation and inspection of branches and sub-branches of the Bank. The Board of Supervisors had focused on surveying and inspecting the implementation of financial and accounting regulations, cost controlling and loan asset structure of the branches and sub-branches of the Bank during 2007. It had inspected two branches and the Credit Card Center for three times to survey the operation of the branch outlets and had made recommendations on strengthening the risk management and internal control.

Carrying out its supervising responsibility. The Bank held four shareholders' general meetings and eleven meetings of the Board of Directors in 2007. The supervisors sat in on the shareholders' general meetings and Board of Directors meetings as well as special committees meetings to supervise the conformity with laws and regulations of the general meetings and the Board of Directors meetings, the voting procedure, and the directors' diligence, reviewed the proposals of the Board of Directors and its special committees and made comments and suggestions accordingly.

Strengthening the communication with the regulatory authorities. The Board of Supervisors actively took part in the "Campaign of Strengthening Corporate Governance of the Listed Companies", and participated in the related work of various stages. At the end of September 2007, the Chairman of the Board of Supervisors together with the external supervisors and some supervisors designated by shareholders held a discussion meeting with the On-Site Inspection Group of Beijing Securities Regulatory Bureau to report the activities undertaken regarding corporate governance of the Bank.

Organizing related training activities for the supervisors. All eight supervisors of the Bank attended the director and supervisor training course in Beijing organized by Beijing Securities Regulatory Bureau in compliance with the regulatory requirements, and passed the exams and received the certificates.

Participating in IPO related works. Members of the Board of Supervisors reviewed and signed the legal documents related to IPO such as the Prospectus, making detailed statements and disclosures in the due diligence on the Bank's conformity with laws in operating its business, the authenticity of the financial statements, particulars of the acquisition and disposal of assets of the Bank, connected transactions, internal control mechanism and corporate governance.

During the reporting period, Mr. Li Qianxin resigned from the office of supervisor due to his retirement. Mr. Zheng Xuexue, nominated by the controlling shareholder CITIC Group, was elected member of the Board of Supervisors at the 2006 Annual Shareholders General Meeting.

Independent Opinions of Board of Supervisors on Relevant Issues

Operation in Compliance with Laws

The Bank conducts its business in accordance with the Company Law of the People's Republic of China (the "Company Law" for short), Law of the People's Republic of China on Commercial Banks (the "Law for Commercial Banks" for short) and the Articles of Association of the Bank, its decision-making procedures are legitimate and valid. No violations of relevant laws and regulations as well as the Articles of Association of the Bank were found in directors and senior managements in exercising their duties that resulted in impairment of the interests of the Bank or its shareholders. The Bank has established a comprehensive, sound and effective internal control mechanism.

The Authenticity of the Financial Report

The 2007 financial report has reflected the financial conditions and operational results of the Bank in authentic, objective and accurate manners.

Use of Proceeds from IPO

During the reporting period, the Bank listed its A-share and H-share and raised net funds of RMB44.836 billion after deduction of listing fee. All the funds raised are used for increasing the capital fund. The use of proceeds was consistent with the purpose as stated in the Prospectus.

Purchase and Sales of Assets

During the reporting period, the Board of Supervisors did not find any purchase and sales of the assets of the Bank that might result in the impairment of the interests of the shareholders or the loss of the Bank's assets.

Related Party Transactions

During the reporting period, the Board of Supervisors did not find any related party transactions that might result in the impairment of the interests of the Bank or its shareholders.

Implementation of Resolutions Passed in Shareholders' General Meetings

The Board of Supervisors had no disagreement with the reports and proposals submitted to the Shareholders' General Meeting by the Board of Directors during the reporting period. The Board of Supervisors supervised the implementation of resolutions passed at the Meetings and believed that the Bank's Board of Directors faithfully implemented the resolutions passed at the Shareholders' General Meeting.

中信银行
CHINA CITIC BANK

In 2007, the Group realized net profit of RMB8.322 billion, an increase of RMB4.464 billion or 115.7% on a year-on-year basis. Total assets reached RMB1,011.186 billion, an increase of RMB304.463 billion or 43.1% from the end of last year. Total liabilities amounted to RMB927.095 billion, up by RMB252.066 billion or 37.3% over the end of last year. Shareholders' equity (excluding minority interests) was RMB84.086 billion, an increase of RMB52.397 billion or 165.3% from the end of last year.

Make effort to outpace

domestic and foreign banks.

Management Discussion and Analysis

Economy, Financial and Regulatory Environment

The global economy in 2007 was generally stable as a whole. While the development of the economy of America, Japan and Europe slowed down, the emerging market economies such as China, Brazil, Russia and India were speeding up in development and injecting new vitality to the world economy. Meanwhile, the continuing rise of oil price and the influence of sub-prime mortgage loans increased the instability of economic growth.

The domestic economy of China has kept its development at a high speed with the GDP growth rate of 11.4%. Consumption, investment and export, being the three main demands, retained their strong growing momentum. Residents' income, the financial income and the enterprises' profits all kept a fast increase. However, the pressure from rising consumer prices increased, with CPI reaching 4.8%. Export and import kept on increasing rapidly with the annual growth rate of 23.5%. The trade surplus further widened and RMB kept on appreciating rapidly with the exchange rate versus US dollars reaching 7.30 at the end of 2007 and has appreciated nearly 7% throughout the year.

To tackle the problems in the macro economy, the Chinese government strengthened the macro economic control and increased the deposit reserve ratio for ten times to 14.5% within one year and increased the benchmark interest rate for six times and controlled the loan extension limit via window guidance. In addition, it adjusted the loan extension policies for purchasing the second property to curb the over-rising house price of certain regions. The macro economic control of Chinese government will help improve the domestic economic structure and enhance a sustainable and healthy development of the national economy.

The strengthening of macro economic control has brought to banks not only the requirements on operational management, but also room for new development. The Bank strictly implemented the macro economic control measures by actively controlling the overall amount and the progress of credits and loans according to the requirements of the financial policy; on the other hand, the Bank grasped the opportunities in the national economic development to strengthen marketing and innovation and to improve the market competitiveness. The Bank strengthened the research and forecast on the trend of macro economy and financial situation to grasp the scale and rhythm of loan release and to keep a stable increase in profit. The Bank also utilize the macro economic control opportunity to refine the loan structure of the Bank, and provided preferential loan policies to key industry sectors and excellent enterprises. The Bank strengthened the liquidity management and set a reasonable match of asset and liability structure to reduce the impact to the banking operation by macro economic control measures. The Bank speeded up the non-interest income business growth, including wealth management, investment banking and private banking to improve the non-interest income proportion. The Bank also strengthened the risk management, closely monitored the Bank's operational risks and continued to improve the loan assets quality.

Financial Statement Analysis

Overview

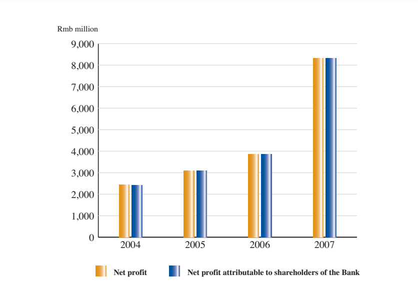
In 2007, China CITIC Bank Corporation Limited and its subsidiaries ("the Group" for short hereinafter) experienced a rapid business development, with a continuous improvement in profitability, effective cost control measures, enhancement in asset quality, and a more reasonable business and income structure. The Bank's overall business operations are in a robust and healthy situation.

In 2007, the Group realized the net profit of RMB8.322 billion, an increase of RMB4.464 billion or 115.7% on a year-on-year basis. Total assets reached RMB1,011.186 billion, an increase of RMB304.463 billion or 43.1% from the end of last year. Total liabilities amounted to RMB927.095 billion, up by RMB252.066 billion or 37.3% over the end of last year. Shareholders' equity (excluding minority interests) was RMB84.086 billion, an increase of RMB52.397 billion or 165.3% from the end of last year.

Overview of Major Indicators of Operating Results

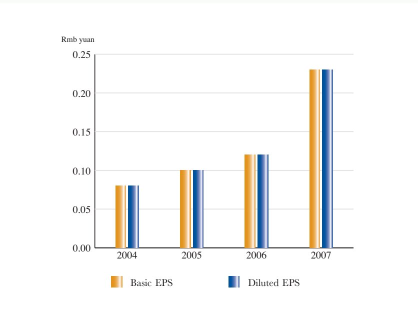
Net profit

Given a rapid growth of operating income of the Group, the asset turnover further increased and the effective tax rate significantly reduced, net profits in 2007 was RMB2.622 billion higher than the IPO earning forecast.



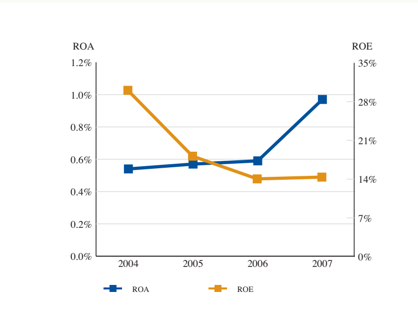
Earning per share

Our Group's basic and diluted EPS in 2007 was RMB0.23, an increase of RMB0.11, or 91.67% from that of the end of the previous year. After the simultaneous listing of the Group in Shanghai and Hong Kong in April 2007, average share capital of common shares increased as compared to that of the previous year, However, EPS still substantially increased as a result of rapid growth of net profits.



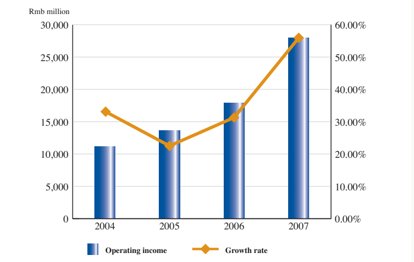
Asset & share capital return

In 2007, our Group's ROAA was 0.97%, an increase of 0.38 percentage point from last year, and ROAE was 14.37%, registering an increase compared with 14.05% last year. Operating efficiency has been further enhanced.



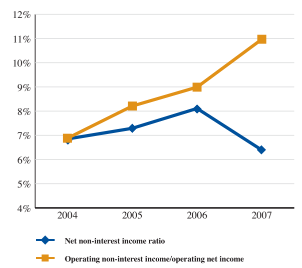
Operating income growth rate

In 2007, our Group achieved operating income of RMB27.955 billion, up by 55.9% or RMB10.028 billion from the previous year. Growth of operating income was mainly resulted from the growth in the size of interest-earning assets and the increase in average earning ratio level. In addition, income from commissions and handling charges increased substantially from the previous year as our Group has been actively expanding wealth management, credit card, custody and various investment banking businesses.



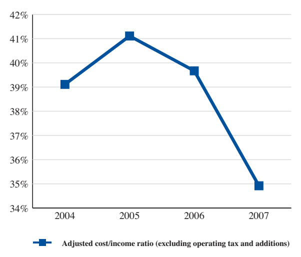
Net non-interest income ratio

In 2007, our Group achieved RMB1.785 billion of net non-interest income, an increase of RMB331 million, or 22.8% from the same period of the previous year. Net non-interest income ratio was 6.39%, dropped 1.72 percentage points from previous year. Excluding related non-operating factors such as exchange losses of capital, the operating net non-interest income ratio stood at 10.97%, up by 1.98 percentage points from the same period of previous year.



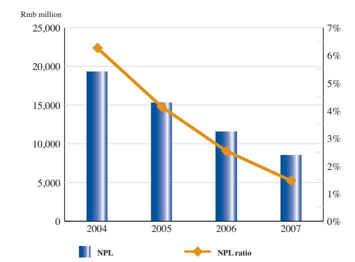
Cost/Income ratio

In 2007, while achieving a rapid growth in operating income, the Group adopted effective measures to control operating cost, resulting in a cost/income ratio of 42.19%. The cost/income ratio was 34.92% after excluding business tax and additions, representing 4.75 percentage points lower than the cost/income ratio of 2006 after excluding business tax and additions and CITIC Group's management fees.



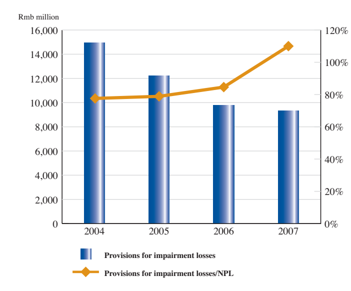
NPL

Our Group's total NPLs at the end of 2007 amounted to RMB8.492 billion, representing a decrease of RMB3.073 billion. NPL ratio decreased to 1.47%, representing a drop of 1.03 percentage points from the end of the previous year. Our asset quality has been further improved.



Provisions for impairment loss

At the end of 2007, the balance of provisions for impairment losses was RMB9.342 billion, which dropped RMB444 million from the end of last year. Provision coverage ratio was 110.01%, representing an increase of 25.39 percentage points as compared with the end of the previous year, realizing IPO commitments 2 years in advance.



Income Statement Analysis

(Unit: in millions of RMB)

	2007	2006	2005
Net interest income	**26,170**	16,473	12,660
Net non-interest income	**1,785**	1,454	995
General and administrative expense	**(11,795)**	(9,259)	(7,104)
Provisions for impairment losses	**(2,988)**	(1,666)	(1,098)
Profit before tax	**13,172**	7,002	5,453
Income tax	**(4,850)**	(3,144)	(2,369)
Net profit	**8,322**	3,858	3,084
Attributable to:			
Shareholders of the Bank	**8,322**	3,858	3,083
Minority interests	**—**	—	1

Net Interest Income

Net interest income of the Group was not only influenced by the margin between the yield of interest-earning assets and the cost of interest-bearing liabilities, but also influenced by the average balances of interest-earning assets and interest-bearing liabilities. In 2007, the Group realized a net interest income of RMB26.170 billion, an increase of RMB9.697 billion, or 58.9% from that of the previous year.

The table below showed average balances and the average interest rates of the Group's interest-earning assets and interest-bearing liabilities:

(Unit: in millions of RMB)

	2007			2006			2005		
	Average balance	**Interest**	**Average interest rate %**	Average balance	Interest	Average interest rate %	Average balance	Interest	Average interest rate %
Interest-earning assets									
Loans and advances to customers	**532,614**	**32,566**	**6.11**	437,124	23,288	5.33	343,937	17,799	5.18
Investments in securities	**153,944**	**5,206**	**3.38**	103,329	3,477	3.37	98,716	3,009	3.05
Balance with central banks	**88,826**	**1,511**	**1.70**	62,446	964	1.54	46,651	713	1.53
Amounts due from banks and non-bank financial institutions	**62,449**	**2,211**	**3.54**	26,165	715	2.73	27,757	607	2.19
Subtotal	**837,833**	**41,494**	**4.95**	629,064	28,444	4.52	517,061	22,128	4.28
Interest-bearing liabilities									
Deposits from customers	**641,568**	**12,673**	**1.98**	551,871	10,790	1.96	457,427	8,512	1.86
Amounts due to banks and non-bank financial institutions	**110,600**	**2,057**	**1.86**	38,898	745	1.91	34,461	646	1.87
Others(1)	**12,110**	**594**	**4.91**	9,330	436	4.67	6,279	310	4.94
Subtotal	**764,278**	**15,324**	**2.00**	600,099	11,971	1.99	498,167	9,468	1.90
Net interest income			**26,170**			16,473			12,660
Net interest spread(2)			**2.95**			2.53			2.38
Net interest yield(3)			**3.12**			2.62			2.45

Notes: (1) Include the amounts due to central bank and subordinated debt issued.
(2) Representing the difference between the average yield of total interest-earning assets and the average cost of total interest-bearing liabilities.
(3) Calculated by dividing the net interest income by the average balance of total interest-earning assets.

The table below showed the changes in net interest income of the Group due to the changes of scale factor and interest rate factor, where the joint influence of scale factor and interest rate factor was reflected in the changes of interest rate factor.

(Unit: in millions of RMB)

	2007 compared with 2006			2006 compared with 2005		
	Scale factor	**Interest rate factor**	**Total**	Scale factor	Interest rate factor	Total
Assets						
Loans and advances to customers	**5,090**	**4,188**	**9,278**	4,827	662	5,489
Investments in securities	**1,706**	**23**	**1,729**	141	327	468
Balances with central banks	**406**	**141**	**547**	241	10	251
Amounts due from banks and non-bank financial institutions	**991**	**505**	**1,496**	(35)	143	108
Changes in interest income	**8,193**	**4,857**	**13,050**	5,174	1,142	6,316
Liabilities						
Deposits from customers	**1,758**	**125**	**1,883**	1,757	521	2,278
Amounts due to banks and non-bank financial institutions	**1,377**	**(65)**	**1,312**	83	16	99
Others	**130**	**28**	**158**	151	(25)	126
Changes in interest expense	**3,265**	**88**	**3,353**	1,991	512	2,503
Changes in net interest income	**4,928**	**4,769**	**9,697**	3,183	630	3,813

Interest Income

In 2007, the Group realized the interest income of RMB41.494 billion, an increase of RMB13.05 billion, or 45.9% on a year-on-year basis. The rise of interest income was primarily due to the expansion of interest-earning assets (in particular, the loans and advances to customers) and the increase of the average yield of interest-earning assets. Average balance of the Group's interest-earning assets rose from RMB629.064 billion in 2006 to RMB837.833 billion in 2007, an increase of RMB208.769 billion, or 33.19%; average yield of the interest-earning assets gained from 4.52% in 2006 to 4.95% in 2007, an increase of 0.43 percentage point.

Interest Income from Loans and Advances to Customers

The interest income from loans and advances to customers has always been the biggest component of the Group's interest income. Till the end of 2007, the interest income from the loans and advances to customers accounted for 78.48% of the Group's total interest income.

The table below showed the average balance, interest income and average yield of each component of the Group's loans and advances to customers during the periods indicated.

(Unit: in millions of RMB)

	2007			2006			2005		
	Average balance	**Interest income**	**Average yield %**	Average balance	Interest income	Average yield %	Average balance	Interest income	Average yield %
Corporate loans	**424,722**	**27,025**	**6.36**	340,606	19,320	5.67	270,077	14,482	5.36
Discounted bills	**48,670**	**1,932**	**3.97**	54,750	1,571	2.87	38,663	1,345	3.48
Personal loans	**59,222**	**3,609**	**6.09**	41,768	2,397	5.74	35,197	1,972	5.60
Total loans and advances to customers	**532,614**	**32,566**	**6.11**	437,124	23,288	5.33	343,937	17,799	5.18

In 2007, the Group's interest income from loans and advances to customers was RMB32.566 billion, up by RMB9.278 billion or 39.84% compared with RMB23.288 billion of 2006, which was primarily due to the growth of the average balance of loans and advances to customers and the rise of average loan yield from 5.33% to 6.11%.

The rise of average loan yield was mainly because (1) the PBOC increased the benchmark interest rate for loan to customers for 6 times; (2) the Group proactively enhanced asset structure, decreased the proportion of discounted bills, increased the proportion of long and medium-term loans; (3) the Group strengthened the management over interest rate pricing of credit products.

Interest Income from Investments in Debt Securities

In 2007, the Group's interest income from debt securities investments was RMB5.206 billion, an increase of RMB1.729 billion, or 49.73%, compared with the same period of the previous year, which was primarily because the average balance of bond investment increased by RMB50.615 billion or 48.98% from 2006, and the average yield rose from 3.37% in 2006 to 3.38% in 2007.

The increase of the average balance of debt securities investments was due to the sustained growth of various deposits and the funds raised from the Bank's IPO. The Bank had sufficient funds, and therefore invested residual funds which had not been used in loans into debt securities investments which had higher yields than deposits at banks and other financial institutions.

Interest Income from Balances with Central Bank

In 2007, the Group's interest income from balances with central bank amounted to RMB1.511 billion, representing a year-on-year increase of RMB547 million, or 56.74%, as a result of the increase in the average balance and the average yield. Among that, average balances with central banks increased by RMB26.380 billion, or 42.24% from that of 2006, mainly because (1) the statutory deposit reserve ratio was gradually lifted from 9% at the end of 2006 to 14.5% at the end of 2007, and (2) the balance of the statutory deposit reserve funds increased according to the increase in deposits from customers. The growth of average yield from 1.54% in 2006 to 1.70% in 2007 was attributable to the Group's enhanced funds positions operations and stable surplus reserves ratio. However, the Group was able to maintain stable liquidity and reduce the proportion of average surplus reserves in average balance with central bank respectively.

Interest Income from Accounts due from Banks and Non-banking Financial Institutions

In 2007, the Group's interest income from the amount due from banks and non-banking financial institutions was RMB2.211 billion, an increase of RMB1.496 billion or 209.23% over the same period of the previous year. This was mainly due to the rise of average balance, by RMB36.284 billion, and the climbing gain in average yield from 2.73% to 3.54%. The increase of average yield of the amount due from banks and non-banking financial institutions was owed to the rise of the RMB market interest rate, while the increase of the average balance was mainly attributable to the increase of various deposits in the Group and sufficient cash flows contributed by the IPO-raised funds.

Interest Expense

In 2007, the Group's interest expense was RMB15.324 billion, an increase of RMB3.353 billion, or 28.01%. This was primarily due to an increase of the scale of interest-bearing liabilities, and a slight increase of the cost ratio of interest-bearing liabilities. The average balance of the interest-bearing liabilities of the Group rose from RMB600.099 billion in 2006 to RMB764.278 billion in 2007, an increase of RMB164.179 billion or 27.36%; the average cost of the interest-bearing liabilities increased from 1.99% in 2006 to 2.00% in 2007.

Interest Expense on Deposits from Customers

Deposits from customers have always been the primary funding source of the Group. Interest expense on deposits from customers in 2007 and 2006 accounted for 82.70% and 90.13% of the total interest expenses of the Group, respectively.

The table below showed the average balances, interest expenses and average cost of corporate deposits and individual deposits of the Group divided by product type.

(Unit: in millions of RMB)

	2007			2006			2005		
	Average balance	**Interest expense**	**Average cost ratio (%)**	Average balance	Interest expense	Average cost ratio (%)	Average balance	Interest expense	Average cost ratio (%)
Corporate deposits									
Time deposits	**280,188**	**7,924**	**2.83**	252,889	6,854	2.71	220,949	5,512	2.49
Demand deposits	**276,279**	**2,815**	**1.02**	214,347	2,116	0.99	173,592	1,657	0.95
Subtotal	**556,467**	**10,739**	**1.93**	467,236	8,970	1.92	394,541	7,169	1.82
Personal deposits									
Time deposits	**63,372**	**1,766**	**2.79**	72,299	1,727	2.39	55,262	1,289	2.33
Demand deposits	**21,729**	**168**	**0.77**	12,336	93	0.75	7,624	54	0.71
Subtotal	**85,101**	**1,934**	**2.27**	84,635	1,820	2.15	62,886	1,343	2.14
Total deposits from customers	**641,568**	**12,673**	**1.98**	551,871	10,790	1.96	457,427	8,512	1.86

In 2007, the Group's interest expense on deposits from customers reached RMB12.673 billion, with an increase of RMB1.883 billion, or 17.45%, which was primarily due to the RMB89.697 billion increase of the average balance of deposits from customers, while the increase of interest expense therefore was partially offset by the 2 basis points decrease of average cost.

Despite the six benchmark interest rate increases by the central bank in 2007, the average cost ratio of deposits from customers of the Group only increased by 2 basis points from that of 2006. The average balance of the Group's demand deposit increased from 41.08% in 2006 to 46.45% in 2007. Meanwhile, the drop of the average cost of deposits from customers was primarily due to the drop of the proportion of daily average balance of RMB negotiated deposits (with average cost higher than other deposits) in the daily average balance of corporate deposits from 10.15% in 2006 to 6.33% in 2007.

Interest Expense on Amounts due to Banks and Non-banking Financial Institutions

In 2007, the Group's the interest expense on amounts due to banks and non-bank financial institutions reached RMB2.057 billion, up by RMB1.312 billion or 176.11% compared with the RMB745 million in 2006, which was largely due to the 184.33% increase of the average balance of the amounts due to banks and non-banking financial institutions and the drop of the average cost of the amounts due to banks and non-banking financial institutions from 1.91% to 1.86%. The increase of the average balance was attributable to the increase in the deposits from some securities companies as a result of brisk securities market. The drop of average cost ratio was largely due to the increase of the proportion of low-cost inter-bank deposits.

Interest Expense on Other Borrowed Funds

In 2007, the Group's interest expense on funds borrowed from the central bank and bonds issued was RMB594 million, representing a year-on-year increase of RMB158 million, or 36.24%. The increase was primarily due to the rise of average balance and average cost ratio. The average balance increased from RMB9.33 billion in 2006 to RMB12.11 billion in 2007, up by RMB2.78 billion or 29.80%, attributable to the increase of average balance of subordinated bonds issued in 2006. The average cost ratio increased from 4.67% in 2006 to 4.91% in 2007, mainly attributed to the floating interest rate of subordinated bonds issued by the Group in 2004.

Net Interest Yield and Net Interest Spread

In 2007, the Group was devoted to improving asset and liability management, reducing the amount of low yield assets and high-cost liabilities. In addition, the central bank increased interest rate by six times. The Bank's net interest yield rose from 2.62% in 2006 to 3.12%, up by 0.5 percentage point. The Bank's net spreads increased from 2.53% in 2006 to 2.95%, up by 0.42 percentage point.

Based on the analysis of the related factors, the increase in net interest yield was mainly come from increase of credit product yield, and the effect of structural improvement due to the increased proportion of demand deposit.

Net Non-interest Income

In 2007, the Group realized a net non-interest income of RMB1.785 billion, an increase of RMB331 million compared with the same period of the previous year. The proportions of the Group's net non-interest income to the Bank's operating income in 2007 and 2006 were 6.39% and 8.11%, respectively.

If eliminating the influences of non-operating factors such as the foreign exchange losses of RMB1.441 billion and RMB174 million in 2007 and 2006, respectively, the net operating non-interest income in 2007 reached RMB3.226 billion, representing an increase of RMB1.598 billion, or 98.2%, from that of the previous year; the proportion of net operating non-interest income to the operating income rose from 8.99% in 2006 to 10.97% in 2007.

(Unit: in millions of RMB)

	2007	2006	2005
Net fee and commission income	**2,080**	759	418
Net gain/(loss) from dealings	**(834)**	454	375
Net gain/(loss) arising from investment securities	**284**	45	(24)
Other operating income	**255**	196	226
Total net non-interest income	**1,785**	1,454	995

Net Fee and Commission Income

(Unit: in millions of RMB)

	2007	2006	2005
Fee and commission income			
Agency fees	**358**	186	137
Bank card fees	**434**	199	86
Guarantee fees	**295**	215	162
Consultancy and advisory fees	**269**	45	17
Settlement fees	**236**	214	166
Wealth management fees	**594**	16	—
Trust and other trusted service commissions	**135**	16	—
Others	**44**	74	40
Subtotal	**2,365**	965	608
Fee and commission expenses	**(285)**	(206)	(190)
Net fee and commission income	**2,080**	759	418

In 2007, net fee and commission income of RMB2.080 billion was realized, RMB1.321 billion, or 174.04% higher than the same period of last year, among which, the fee and commission income of the Group amounted to RMB2.365 billion, a growth of 145.08% compared with the same period of last year, which was primarily because the Group vigorously developed the intermediary business. The agency business, bank card fee, consultancy and advisory fees, wealth management fee and trust and other trusted service commissions achieved a prominent growth.

In 2007, the agency fees was RMB358 million compared with RMB186 million in 2006, up by RMB172 million, which was mainly due to the sales increase of such products as treasury bond, funds, insurance, and services, among which, the growth of agency fees for fund business was the highest, up by RMB139 million compared with the same period of last year.

The Group realized bank card fees of RMB434 million in 2007, up by RMB235 million or 118.09% from RMB199 million in 2006, which was primarily because that the Group continuously promoted the offering of credit cards according to the market change and customer demands; meanwhile, the increasing use of credit cards also boosted the increase of trading volume.

The Group earned RMB295 million in guarantee fees in 2007, up by 37.21% compared with RMB215 million of 2006. The sustained increase of guarantee fees during the aforesaid period was mainly attributed to the increase of trading volume, which were primarily due to the increasing market demand for such kind of service.

In 2007, the Group's consultancy and advisory fee income was RMB269 million, a significant upsurge than RMB45 million in 2006. The rapid increase of the above business was primarily because that the Group spared no effort to develop the investment banking business like financial advisory service.

In 2007, the settlement fee income of the Group was RMB236 million, most of which were international settlement fees. In 2007, the Group's international settlement fees were RMB213 million, representing a year-on-year increase of 9.79%. The growth of international settlement fee was mainly due to the increase of settlement business trading volume.

In 2007, the Group's wealth management fee income was increased by RMB578 million, significant upsurge than that in 2006. The rapid increase of the business was primarily because that the Group spared no effort to grasp the opportunity of securities market, perfected the wealth management product service system and leveraged on the advantages of CITIC Group's comprehensive operation.

For trust services, the Group actively expanded traditional business and blazing new trails, and further diversified the products in 2007; meanwhile, the Bank successfully obtained the enterprise annuity fund trustees qualification through elaborate organization. The commission income of trust services increased by RMB119 million from RMB16 million in 2006.

In 2007, the fee and commission expense of the Group was RMB285 million, up by RMB79 million or 38.35% from RMB206 million in 2006, which was primarily due to: (1) the increase of fee expense aroused by the increase of the trading volume of bank card; and (2) the growth of handling charge of China Foreign Exchange Trading System largely benefited from the increase of the trading volume of the Group's foreign exchange.

Net Gain/(Loss) from Dealing

In 2007, the Group's net deal loss was RMB834 million. This was primarily due to the losses arising from the revaluation of the market value of bonds and derivative products held for trading purposes.

(Unit: in millions of RMB)

	2007	2006	2005
Net gain/(loss) arising from foreign exchange transactions	**144**	503	266
Bonds	**(161)**	10	66
Derivative instruments	**(632)**	(60)	83
Financial liabilities at fair value through profit or loss	**(185)**	1	(40)
Total	**(834)**	454	375

Net Gain/(Loss) Arising from Investment Securities

The Group's net gain from investment securities in 2007 amounted to RMB284 million, an increase of RMB239 million compared with RMB45 million in 2006. This mainly was comprised of gain from sale of available-for-sales securities.

Other Net Operating Income

In 2007, the Group's other operating income was RMB255 million, increased by RMB59 million compared with RMB196 million in 2006.

General and Administrative Expenses

(Unit: in millions of RMB)

	2007	2006	2005
Staff cost	**4,777**	2,914	2,086
Property and equipment expenses and amortization	**1,793**	1,595	1,402
Other general and administrative expenses	**3,191**	2,602	2,125
Subtotal	**9,761**	7,111	5,613
Business tax and surcharges	**2,034**	1,398	991
CITIC Group management fee	**—**	750	500
Total general and administrative expenses	**11,795**	9,259	7,104
Cost-to-income ratio	**42.19%**	51.65%	52.02%
Adjusted cost-to-income ratio (exclusive of CITIC Group management fee, business tax and surcharges)	**34.92%**	39.67%	41.11%

In 2007, the Group's general and administrative expenses reached RMB11.795 billion, an increase of RMB2.536 billion, or 27.4%, compared with the same period of last year. This was mainly because the Group increased the investment in talents, and the expenses on salary, bonus and staff welfare in response to market competition; meanwhile, the Group's expenditure on supporting business development also increased with the expansion of the business scale. Besides, the Group no longer paid the management fee to CITIC Group since 2007, which reduced the increase of the general and administrative expenses during the reporting period.

In 2007, the Group's adjusted cost-to-income ratio was 34.92%, down by 4.75 percentage points compared with the same period in 2006 (after deducting the management fee paid to CITIC Group). This was primarily attributed to the effective cost management control and the rapid growth of the operating income of the Group.

In 2007, the Group's business tax and surcharges reached RMB2.034 billion, an increase of RMB636 million or 45.49% from that of 2006, which was primarily due to the increase of taxable income.

Expenses on Impairment Losses

The table below showed the expenses of the Group on the impairment losses during the periods indicated.

(Unit: in millions of RMB)

	2007	2006	2005
Loans and advances to customers	**2,860**	1,481	1,055
Off-balance sheet credit assets	**65**	54	—
Investments	**7**	(4)	1
Amounts due from banks and non-bank financial institutions	**(1)**	(3)	(6)
Other *(note)*	**57**	138	48
Total provisions for impairment losses	**2,988**	1,666	1,098

Note: Including debt assets and impairment loss of other assets.

The Group's provisions for impairment losses increased from RMB1.666 billion in 2006 to RMB2.988 billion in 2007, up by RMB1.322 billion or 79.35%, which was mainly attributable to the increase in allowances for impairment losses with the expansion of the loan scale, and the changes in loan category.

Income Tax Analysis

(Unit: in millions of RMB)

	2007	2006	2005
Profit before tax	**13,172**	7,002	5,453
Chinese income tax calculated at statutory tax rate of 33%	**4,347**	2,311	1,799
Tax impact on non-deductible expenses			
— Staff costs	**228**	654	485
— Reversal of deferred income tax due to tax rate changes	**295**	—	—
— Others *(Note)*	**226**	375	293
Tax impact on non-taxable income			
— Interest income from Chinese government bonds	**(245)**	(168)	(189)
— Others	**(1)**	(28)	(19)
Total income tax	**4,850**	3,144	2,369

Note: This amount mainly represents the taxation effect due to the non-deductible portion of business reception fee, advertising fee and marketing fee. The amounts of 2005 and 2006 also include the taxation effect of non-deductible management fee paid by CITIC Group.

In 2007, the Group's income tax expense was RMB4.85 billion, representing a year-on-year increase of RMB1.706 billion, or 54.3%. The Group's effective tax rate was 36.82%, down by 8.08 percentage points compared with 44.90% in 2006.

According to the new Enterprise Income Tax Law passed on the National People's Congress in March 2007, as of 1 January 2008, the enterprise income tax rate dropped to 25%. Till 31 December 2007, the Group's deferred income tax fell by RMB295 million. The Group has, in accordance with the relevant provisions, recognized it as income tax expense in 2007.

According to the *Circular of the State Administration of Taxation of the Ministry of Finance on Adjusting the Policies Deducting Wage Expenses before Enterprise Income Tax*, the reply by the State Administration of Taxation on 6 August 2007 (SAT [2007] No. 866) and *Circular of the State Administration of Taxation of the Ministry of Finance on Relevant Questions of Ratifying CITI Deducting Standard of Taxable Wages* ([2008] No. 36), the Group deducted RMB2.984 billion wages expenses before enterprise income tax, and adjusted the remaining wages expenses to taxable income.

Balance Sheet Analysis

(Unit: in millions of RMB)

	31 December 2007	31 December 2006	31 December 2005
Total loans and advances to customers	**578,028**	463,167	370,260
Provisions for impairment losses	**(9,342)**	(9,786)	(12,230)
Net loans and advances to customers	**568,686**	453,381	358,030
Investments in securities	**159,848**	104,424	104,416
Cash and balances with central bank	**209,399**	90,620	84,453
Amounts due from banks and non-banking financial institutions	**55,851**	43,250	31,352
Other assets(1)	**17,402**	15,048	16,351
Total assets	**1,011,186**	706,723	594,602
Deposits from customers	**787,211**	618,412	530,573
Amounts due to banks and non-banking financial institutions	**112,587**	36,166	28,021
Outstanding subordinated debts	**12,000**	12,000	6,000
Other liabilities(2)	**15,297**	8,451	6,783
Total liabilities	**927,095**	675,029	571,377

Notes: (1) Include property and equipments, deferred tax assets, interest receivable, repossessed assets, derivative with positive fair value, land use right, intangible assets and other assets.

(2) Includes amounts due to central banks, current tax liabilities, deferred tax liabilities and other liabilities.

Most assets of the Group are loans and advances to customers. As of the end of 2007, loans and advances to customers after deducting provision for impairment losses accounted for 56.2% of the total assets of the Group.

As of the end of 2007, the Group's total loans and advances to customers reached RMB578.028 billion, representing an increase of RMB114.861 billion or 24.8% from RMB463.167 billion as of the end of 2006.

Loan Businesses

Loans by Types of Customers

(Unit: in millions of RMB)

	31 December 2007		31 December 2006		31 December 2005	
	Balance	**Proportion %**	Balance	Proportion %	Balance	Proportion %
Corporate loans	**468,340**	**81.0**	369,156	79.7	282,275	76.3
Discounted bills	**33,599**	**5.8**	45,636	9.9	50,151	13.5
Personal loans	**76,089**	**13.2**	48,375	10.4	37,834	10.2
Total loans and advances to customers	**578,028**	**100.0**	463,167	100.0	370,260	100.0

As of the end of 2007, the Group's corporate loans reached RMB468.340 billion, representing an increase of RMB99.184 billion, or 26.9%, from RMB369.156 billion as of the end of 2006.

As of the end of 2007, the Group's personal loans amounted to RMB76.089 billion, up by RMB27.714 billion, or 57.3%, compared with RMB48.375 billion as of the end of 2006.

As of the end of 2007, the Group's discounted bills reached RMB33.599 billion, a decrease of RMB12.037 billion from that as of the end of 2006.

Loans and Advances to Customers by Geographical Location

(Unit: in millions of RMB)

	31 December 2007		31 December 2006		31 December 2005	
	Balance	**Proportion %**	Balance	Proportion %	Balance	Proportion %
Yangtze River Delta	**182,058**	**31.5**	146,784	31.7	120,026	32.4
Bohai Rim[(1)]	**169,249**	**29.3**	138,310	29.9	115,706	31.2
Pearl River Delta & West Strait	**91,258**	**15.8**	68,230	14.7	52,885	14.3
Central region	**60,410**	**10.5**	46,704	10.1	36,255	9.8
Western region	**55,780**	**9.7**	43,820	9.5	32,029	8.7
Northeastern region	**19,065**	**3.2**	19,141	4.1	13,207	3.6
Hong Kong	**208**	**—**	178	—	152	—
Total loans and advances to customers	**578,028**	**100.0**	463,167	100.0	370,260	100.0

Note: (1) Includes the headquarters.

The Group has been placing strong emphasis on the East coast region where the economy was most developed, such as the Yangtze River Delta, Bohai Rim and Pearl River Delta. As of 31 December 2007, 2006 and 2005, total loans to these three regions accounted for 76.6%, 76.3%, and 77.9% of the total loans and advances to customers, respectively.

Breakdown of Loans by Industry Sectors

(Unit: in millions of RMB)

	31 December 2007		31 December 2006		31 December 2005	
	Balance	**Proportion %**	Balance	Proportion %	Balance	Proportion %
Manufacturing	**147,762**	**31.6**	108,539	29.4	81,537	28.9
Transportation, storage and postal services	**63,156**	**13.5**	35,933	9.7	23,633	8.4
Production and supply of electric power, gas and water	**44,422**	**9.5**	38,022	10.3	26,559	9.4
Wholesale and retail	**42,239**	**9.0**	33,468	9.1	29,902	10.5
Property development	**41,741**	**8.9**	28,796	7.8	22,957	8.1
Leasing and commercial services	**34,793**	**7.4**	29,375	8.0	18,566	6.6
Water conservancy, environmental and public utility management	**28,324**	**6.0**	26,915	7.3	20,811	7.4
Construction	**22,199**	**4.7**	23,364	6.3	15,963	5.7
Finance	**1,512**	**0.3**	3,107	0.8	9,188	3.3
Public and social organizations	**8,131**	**1.7**	10,468	2.8	7,858	2.8
Others[(1)]	**34,061**	**7.4**	31,169	8.5	25,301	8.9
Total corporate loans	**468,340**	**100.0**	369,156	100.0	282,275	100.0

As of 31 December 2007, 2006 and 2005, the proportions of the Group's loans to the top five industries taking up the largest proportions of the Bank's lending business to the total corporate loans were 72.5%, 66.3% and 65.3% respectively. In order to further improve the integral asset quality, the Group spared no efforts to adjust and optimize its credit structure, and has focused its credit policy on "quality industries, quality enterprises" and "mainstream market, mainstream customers" since 2005.

Maturity Profile of Loan Portfolio

The table below showed the loan products of the Group based on remaining as of period prior to the due date 31 December 2007.

(Unit: in millions of RMB)

	Less than 1 year	Between 1 year and 5 years	More than 5 years	Repayable on demand(1)	Undated(2)	Total
Corporate loans	329,899	90,651	39,408	157	8,225	468,340
Discounted bills	33,599	—	—	—	—	33,599
Personal loans	13,893	18,541	40,807	1,699	1,149	76,089
Total loans and advances to customers	377,391	109,192	80,215	1,856	9,374	578,028

Notes: (1) Include all or part of the principals overdue for less than 30 days (inclusive).
(2) Include all NPLs and all or part of the principals overdue for over 30 days, or loans with interests overdue for over 90 days while the principals are not due yet.

Breakdown of Loans by Currency

(Unit: in millions of RMB)

	31 December 2007		31 December 2006		31 December 2005	
	Balance	**Proportion %**	Balance	Proportion %	Balance	Proportion %
RMB	**547,352**	**94.7**	444,812	96.0	349,536	94.4
Foreign currency	**30,676**	**5.3**	18,355	4.0	20,724	5.6
Total	**578,028**	**100.0**	463,167	100.0	370,260	100.0

Breakdown of Loans by Types of Guarantee

(Unit: in millions of RMB)

	31 December 2007		31 December 2006		31 December 2005	
Types of guarantee	**Balance**	**Proportion %**	Balance	Proportion %	Balance	Proportion %
Unsecured loans	**158,972**	**27.5**	129,411	28.0	92,253	24.9
Guaranteed loans	**171,145**	**29.6**	142,321	30.7	113,348	30.6
Loans secured by monetary assets and other tangible assets	**214,312**	**37.1**	145,799	31.4	114,508	31.0
Subtotal	**544,429**	**94.2**	417,531	90.1	320,109	86.5
Discounted bills	**33,599**	**5.8**	45,636	9.9	50,151	13.5
Total	**578,028**	**100.0**	463,167	100.0	370,260	100.0

Concentration of Borrowing

The Group paid the centralized risk control on loans. Currently, the Group complies with the regulatory requirements of concentration of borrowing. The Group defines a single borrower as a definite legal entity. Therefore, one borrower may be a related party of another borrower.

Major regulatory indicators	Regulatory standards	31 December 2007	2006	2005
Loan to single customer ratio (%)	≤10	**3.41**	6.70	8.49
Loan to top ten customers ratio (%)	≤50	**25.03**	47.60	46.41

(Unit: in millions of RMB)

		31 December 2007		
	Industry	**Amount**	**% of total loans**	**% of regulatory capital**
Borrower A	Transportation, storage and postal services	**3,225**	**0.56%**	**3.41%**
Borrower B	Telecommunications, computer services and software	**3,000**	**0.52%**	**3.18%**
Borrower C	Transportation, storage and postal services	**2,669**	**0.46%**	**2.83%**
Borrower D	Transportation, storage and postal services	**2,400**	**0.42%**	**2.54%**
Borrower E	Production and supply of electric power, gas and water	**2,300**	**0.40%**	**2.44%**
Borrower F	Production and supply of electric power, gas and water	**2,200**	**0.38%**	**2.33%**
Borrower G	Production and supply of electric power, gas and water	**2,180**	**0.38%**	**2.31%**
Borrower H	Transportation, storage and postal services	**2,000**	**0.35%**	**2.12%**
Borrower I	Transportation, storage and postal services	**1,840**	**0.32%**	**1.95%**
Borrower J	Transportation, storage and postal services	**1,815**	**0.30%**	**1.92%**
Subtotal		**23,629**	**4.09%**	**25.03%**

Loan Quality Analysis

Five-category Classification of Loans

As of the end of 2007, the amount of NPLs of the Group totalled RMB8.492 billion, based on the regulatory classification standard of loans, a drop of RMB3.073 billion compared with that as of the end of last year; NPL ratio was 1.47%, a drop of 1.03 percentage points compared with that as of the end of last year.

(Unit: in millions of RMB)

	31 December 2007		31 December 2006		31 December 2005	
	Balance	**Proportion %**	Balance	Proportion %	Balance	Proportion %
Normal	**557,712**	**96.5**	440,352	95.1	339,708	91.8
Special mention	**11,824**	**2.0**	11,250	2.4	15,241	4.1
Substandard	**915**	**0.2**	1,981	0.4	2,685	0.7
Doubtful	**7,085**	**1.2**	7,404	1.6	8,781	2.4
Loss	**492**	**0.1**	2,180	0.5	3,845	1.0
Total loans and advances to customers	**578,028**	**100.0**	463,167	100.0	370,260	100.0
Performing loans	**569,536**	**98.53**	451,602	97.50	354,949	95.86
NPLs	**8,492**	**1.47**	11,565	2.50	15,311	4.14

Changes in Provisions for Impairment Losses

The table below set forth the changes in the provisions for impairment losses on loans and advances to customers of the Group during the periods specified.

(Unit: in millions of RMB)

	2007	2006	2005
Year beginning balance	**9,786**	12,230	14,958
Accrual of the year(1)	**2,860**	1,481	1,055
Discount reversal(2)	**(187)**	(210)	(275)
Transfer out(3)	**(45)**	(153)	(6)
Write-offs	**(3,072)**	(3,685)	(3,519)
Recoveries of loans and advances written off previously	**—**	123	17
Year ending balance	**9,342**	9,786	12,230

Notes: (1) Equals to net provision for impairment losses accrued in the consolidated income statement of the Group.

(2) Equals to accretion of loan value for which provision for impairment losses was provided in the past. The Group recognized such accretion as interest income.

(3) Includes the allowances for impairment losses released arising from the transfer of non-performing loan assets to repossessed assets.

The Group's balance of provisions for impairment losses decreased by RMB444 million from RMB9.786 billion as of 31 December 2006 to RMB9.342 billion as of 31 December 2007, which was primarily due to loan write-offs.

As of 31 December 2007, the coverage rate of the Group's total provisions for impairment losses to total NPLs and customer loans were 110.01% and 1.62% respectively. As of 31 December 2006, the coverage rate of the Group's total provisions for impairment losses to total NPLs and customer loans were 84.62% and 2.11% respectively.

Breakdown of NPL by Types Customers

(Unit: in millions of RMB)

	31 December 2007			31 December 2006			31 December 2005		
	Balance	**% of total**	**NPL ratio (%)**	Balance	% of total	NPL ratio (%)	Balance	% of total	NPL ratio (%)
Corporate loans	**8,004**	**94.3**	**1.71**	11,151	96.4	3.02	14,918	97.4	5.28
Personal loans	**488**	**5.7**	**0.64**	414	3.6	0.85	393	2.6	1.04
Discounted bills	**—**	**—**	**—**	—	—	—	—	—	—
Total	**8,492**	**100.0**	**1.47**	11,565	100.0	2.50	15,311	100.0	4.14

Breakdown of NPLs by Geographical Location

(Unit: in millions of RMB)

	31 December 2007			31 December 2006			31 December 2005		
	Amount	**% of total**	**NPL ratio (%)**	Amount	% of total	NPL ratio (%)	Amount	% of total	NPL ratio (%)
Yangtze River Delta	**852**	**10.0**	**0.47**	756	6.5	0.52	925	6.0	0.77
Bohai Rim[1]	**4,114**	**48.4**	**2.43**	5,091	44.0	3.68	6,029	39.4	5.21
Pearl River Delta and West Strait	**1,877**	**22.1**	**2.06**	3,977	34.4	5.83	6,467	42.3	12.23
Central region	**772**	**9.1**	**1.28**	816	7.1	1.75	754	4.9	2.08
Western region	**452**	**5.3**	**0.81**	497	4.3	1.13	660	4.3	2.06
Northeastern region	**425**	**5.1**	**2.23**	428	3.7	2.24	476	3.1	3.60
Total	**8,492**	**100.0**	**1.47**	11,565	100.0	2.50	15,311	100.0	4.14

Note: (1) Includes the headquarters.

Breakdown of Corporate NPLs by Industry Sectors

(Unit: in millions of RMB)

	31 December 2007			31 December 2006			31 December 2005		
	Amount	**% of total**	**% of NPLs**	Amount	% of total	% of NPLs	Amount	% of total	% of NPLs
Manufacturing	**4,051**	**50.6**	**2.74**	4,780	42.9	4.40	5,041	33.8	6.18
Transportation, storage and postal services	**65**	**0.8**	**0.10**	156	1.4	0.43	523	3.5	2.21
Production and supply of electric power, gas and water	**22**	**0.3**	**0.05**	16	0.1	0.04	110	0.7	0.41
Wholesale and retail	**1,539**	**19.2**	**3.64**	2,383	21.4	7.12	2,956	19.8	9.89
Property development	**783**	**9.8**	**1.88**	1,330	11.9	4.62	2,274	15.2	9.91
Leasing and commercial services	**358**	**4.5**	**1.03**	829	7.4	2.82	1,203	8.1	6.48
Water conservancy, environmental and public utility management	**18**	**0.2**	**0.06**	18	0.2	0.07	24	0.2	0.12
Construction	**28**	**0.3**	**0.13**	48	0.4	0.21	129	0.9	0.81
Finance	**231**	**2.9**	**15.28**	240	2.2	7.72	355	2.4	3.86
Public and social organizations	**13**	**0.2**	**0.16**	102	0.9	0.97	106	0.7	1.35
Others(2)	**896**	**11.2**	**2.63**	1,249	11.2	4.01	2,197	14.7	8.69
Total NPLs	**8,004**	**100.0**	**1.71**	11,151	100.0	3.02	14,918	100.0	5.28

The Group spared no efforts to reduce loans to industries with high NPL ratio. Therefore, the total corporate NPLs demonstrated a declining trend.

Loans Overdue

(Unit: in millions of RMB)

	31 December 2007		31 December 2006		31 December 2005	
	Balance	**Proportion %**	Balance	Proportion %	Balance	Proportion %
Loans repayable on demand	**567,348**	**98.2**	449,427	97.0	352,988	95.3
Loans overdue[1]:						
1–90 days	**2,700**	**0.5**	2,311	0.5	2,988	0.8
91–180 days	**438**	**0.1**	735	0.2	1,283	0.4
181 days or above	**7,542**	**1.2**	10,694	2.3	13,001	3.5
Subtotal	**10,680**	**1.8**	13,740	3.0	17,272	4.7
Total customer loans	**578,028**	**100.0**	463,167	100.0	370,260	100.0
Loans overdue for 91 days or above	**7,980**	**1.3**	11,429	2.5	14,284	3.9

	31 December 2007		31 December 2006	
	Balance	**Proportion %**	Balance	Proportion %
Restructured loans[2]	**5,303**	**0.9**	4,583	1.0

Notes: (1) Overdue loans represent loans with all or part of the principals overdue, or loans with interests overdue while the principals are not due yet.
(2) Restructured loans are loans, previously and advances overdue or impaired but their relevant terms have been re-negotiated.

Investment Businesses

Investment Portfolio Analysis

(Unit: in millions of RMB)

	31 December 2007		31 December 2006		31 December 2005	
	Balance	**Proportion %**	Balance	Proportion %	Balance	Proportion %
Held-to-maturity debt securities	**109,391**	**68.4**	68,196	65.3	67,727	64.9
Available-for-sale debt securities	**43,502**	**27.2**	31,166	29.9	31,564	30.2
Debt securities measured at fair value through profit or loss	**6,500**	**4.1**	4,725	4.5	4,813	4.6
Total debt securities	**159,393**	**99.7**	104,087	99.7	104,104	99.7
Available-for-sale equity investment	**455**	**0.3**	337	0.3	312	0.3
Total investment	**159,848**	**100.0**	104,424	100.0	104,416	100.0
Thereinto:						
Market value of listed securities of held-to-maturity debt securities	**5,582**		6,641		5,425	

Classification of Debt Securities Investment

As of the end of 2007, debt securities held by the Group totalled RMB159.393 billion, up by RMB55.306 billion or 53.13% compared with the end of last year. This was primarily due to the increases in the investment of central bank papers and treasury bonds.

The classification of the Group's investment portfolio for the last three years are as follows:

(Unit: in millions of RMB)

	31 December 2007		31 December 2006		31 December 2005	
	Balance	**Proportion %**	Balance	Proportion %	Balance	Proportion %
Government	**36,858**	**23.2**	23,106	22.2	26,162	25.1
People's Bank of China	**42,187**	**26.5**	23,721	22.8	27,417	26.4
Policy banks	**28,594**	**17.9**	24,917	23.9	18,660	17.9
Banks and non-banking financial institutions	**22,223**	**13.9**	15,650	15.1	15,428	14.8
Public entities overseas	**15,295**	**9.6**	8,988	8.6	9,172	8.8
Enterprise entities	**14,236**	**8.9**	7,705	7.4	7,265	7.0
Total debt securities	**159,393**	**100.0**	104,087	100.0	104,104	100.0

(Unit: in millions of RMB)

	31 December 2007		31 December 2006		31 December 2005	
	Balance	**Proportion %**	Balance	Proportion %	Balance	Proportion %
Domestic	**121,845**	**76.4**	74,760	71.8	71,616	68.8
Overseas	**37,548**	**23.6**	29,327	28.2	32,488	31.2
Total debt securities	**159,393**	**100.0**	104,087	100.0	104,104	100.0

As of 31 December 2007, the Bank did not hold any sub-prime mortgage-backed securities in the United States. Almost all mortgaged-backed securities held by the Group were basically preferred class mortgage securities issued by the three largest housing loan agencies in the United States, and they were rated AAA by rating agencies, which beared a relatively low credit risk.

The details of the US mortgaged-backed securities held by the Group in 2007 are as follows:

(Unit: in millions of RMB)

Types	**Balance on 31 December, 2007**	**Proportion of asset backed securities in foreign currency** (%)	**Proportion of debt securities in foreign currency** (%)	**Proportion of debt securities in local and foreign currency** (%)	**Provisions of impairment losses**	**Credit rating**
MBS						
Prime	9,320	97.46	23.52	5.85	—	Issued by US federal institution, with AAA grade
Alt–A	171	1.79	0.43	0.11	—	Issued by non-US federal institution, with AAA grade
Sub-prime	—	—	—	—	—	
CDO *Note*(1)	22	0.23	0.06	0.01	7	S&P AAA, Moody's A3, Fitch A
Commercial MBS *Note*(2)	50	0.52	0.12	0.03	—	S&P AAA, Moody's A3, Fitch A
Other ABS	—	—	—	—	—	
Total	9,563	100	24.13	6.00	7	

Notes: (1) The Group has only one CDO, with diversified collaterals, including aircraft leasing, equipment leasing, automobile loans, commercial property mortgage loans and housing interest loans. Currently, such CDO has normal serving condition. For prudence sake, the Group has accrued an impairment provision of RMB7.28 million in 2007.

(2) The commercial MBS has commercial property loans in Europe as collaterals.

Breakdown of Significant Financial Debt Securities Investment

The table below showed the details of some financial debt securities investment with face value exceeding RMB1 billion (included) held by the Group as of the end of 2007:

(Unit: in Million of RMB)

Name of Securities	Book value	Term	Annualized interest rate (%)	Note
Securities A	6,900	From 12 October, 2007 to December, 2006	3.95	
Securities B	5,000	From 7 September, 2007 to 7 September, 2010	3.71	
Securities C	3,000	From 9 March, 2007 to 9 March, 2010	3.07	
Securities D	3,000	From 13 July, 2007 to 13 July, 2010	3.60	
Securities E	2,177	From 19 October, 2007 to	—	Monetary Market Fund
Securities F	1,994	From 9 November, 2007 to 5 February, 2008	—	Zero-coupon securities
Securities G	1,498	From 19 October, 2007 to 18 January, 2008	—	Zero-coupon securities
Securities H	1,183	From 29 November, 2007 to	—	Monetary Market Fund
Securities I	1,000	From 11 July, 2007 to 11 January 2008	4.08	
Total	25,752			

Equity Investment

As of 31 December 2007, the Group's available-for-sale equity investments included (i) the Group's 95% equity investments in its subsidiary, China Investment and Finance Limited amounting to RMB341 million and (ii) the equity investment of RMB114 million in China UnionPay.

Investment Quality Analysis

Changes in the Allowances for Investment Impairment Loss

(Unit: in millions of RMB)

	2007	2006
Beginning balance	**242**	321
Accrual of the year[1]	**7**	(4)
Write-offs	**(66)**	(79)
Transfer in/out[2]	**(171)**	4
Ending balance	**12**	242
Including: allowances for available-for-sale investments		19
Allowances for held-to-maturity investments	**12**	223

Notes: (1) Equals to the net allowances for investment impairment losses accrued in the consolidated income statement of the Group.

(2) Including allowances for impairment losses released arising from the transfer of non-performing loan assets to repossessed assets according to related laws and the effect of foreign exchange rate changes.

Derivative Classification and Fair Value Analysis

(Unit: in millions of RMB)

	31 December 2007			31 December 2006		
		Fair value			Fair value	
	Nominal principal	**Assets**	**Liabilities**	Nominal principal	Assets	Liabilities
Interest rate derivatives	**137,348**	**947**	**(312)**	94,979	250	(339)
Currency derivatives	**113,307**	**1,093**	**(1,600)**	52,913	200	(236)
Credit derivatives	**456**	**9**	**(2)**	560	2	(1)
Total		**2,049**	**(1,914)**		452	(576)

In-balance Sheet Interest Receivable

The table below showed the changes in the interest receivable of the Group.

(Unit: in millions of RMB)

	31 December 2006	Increase in reporting period	Collected in reporting period	**31 December 2007**
Loan interest receivable	982	37,772	37,257	**1,497**
Interest receivable from interbank placement and repurchase agreements	19	2,058	1,965	**112**
Bond interest receivable	1,009	5,206	4,471	**1,744**
Other interest receivable	10	1,664	1,656	**18**
Total	2,020	46,700	45,349	**3,371**

Deposits from Customers

(Unit: in millions of RMB)

	31 December 2007	31 December 2006	31 December 2005
Corporate deposits			
Demand deposits	**338,074**	260,971	232,933
Time deposit	**301,931**	251,580	226,388
Negotiated	**28,770**	46,080	48,180
Non-negotiated	**273,161**	205,500	178,208
Subtotal	**640,005**	512,551	459,321
Personal deposits			
Demand deposit	**66,900**	26,053	10,110
Time deposit	**80,306**	79,808	61,142
Subtotal	**147,206**	105,861	71,252
Total deposits from customers	**787,211**	618,412	530,573

As of 31 December 2007, deposits from customers of the Group totalled RMB787.211 billion, an increase of RMB168.799 billion, or 27.29% compared with RMB618.412 billion as of the end of 2006. The Group's corporate deposits realized an increase of RMB127.454 billion from that as of the end of last year, among which, negotiated deposits decreased by RMB17.310 billion from RMB46.080 billion as of 31 December 2006 to RMB28.770 billion as of 31 December 2007. This was mainly because that the Group had proactively squeezed the corporate negotiated deposits which have higher average cost than the overall corporate deposits since 2005. As of 31 December 2007, personal deposits from customers accounted for 18.7% of the Group's total deposits, representing a slight increase of 1.58 percentage points as compared with that as of 31 December 2006.

Breakdown of Deposits from Customers by Currency

(Unit: in millions of RMB)

	31 December 2007		31 December 2006		31 December 2005	
	Balance	**Proportion %**	Balance	Proportion %	Balance	Proportion %
RMB	**735,557**	**93.4**	562,106	90.9	463,068	87.3
Foreign currency	**51,654**	**6.6**	56,306	9.1	67,505	12.7
Total	**787,211**	**100.0**	618,412	100.0	530,573	100.0

Breakdown of Deposits by Geographical Location

The Group classified deposits based on the locations of banks which accepted deposits. The locations of depositors are usually highly correlated to the locations of the banks which accepted the deposits. The table below showed the geographical distribution of deposits from customers as of the dates specified.

(Unit: in millions of RMB)

	31 December 2007		31 December 2006		31 December 2005	
	Balance	**Proportion %**	Balance	Proportion %	Balance	Proportion %
Bohai Rim[1]	**355,927**	**45.2**	218,259	35.3	208,142	39.3
Yangtze River Delta	**176,372**	**22.4**	179,751	29.1	146,579	27.6
Pearl River Delta and West Strait	**99,913**	**12.7**	89,082	14.4	72,855	13.7
Central region	**65,163**	**8.3**	59,844	9.7	47,214	8.9
Western region	**63,336**	**8.0**	48,181	7.8	39,204	7.4
Northeastern region	**26,500**	**3.4**	23,295	3.7	16,579	3.1
Total deposits from customers	**787,211**	**100.0**	618,412	100.0	530,573	100.0

Note: (1) Includes the headquarters.

Breakdown of Deposits by Remaining Maturity

The table below set forth the deposits from customers based on the remaining period prior to the due dates as of 31 December 2007.

(Unit: in millions of RMB)

	Overdue/undated		Less than 3 months		Between 3 months and 1 year		Between 1 year and 5 years		More than 5 years		Total	
	Amount	Proportion %	Amount	Proportion %	Amount	Proportion %	Amount	Proportion %	Amount	Proportion %	Amount	Proportion %
Corporate deposits	342,261	43.5	187,289	23.8	83,474	10.6	22,932	2.9	4,049	0.4	640,005	81.2
Personal deposits	67,431	8.6	62,073	7.9	15,408	2.0	2,294	0.3	—	—	147,206	18.8
Total	409,692	52.1	249,362	31.7	98,882	12.6	25,226	3.2	4,049	0.4	787,211	100.0

Shareholders' Equity

(Unit: in millions of RMB)

	31 December 2007	31 December 2006	31 December 2005
Shareholders' equity	**84,086**	31,689	23,220
Minority interests	**5**	5	5
Total shareholders' equity	**84,091**	31,694	23,225

Changes in Shareholders' Equity during the Reporting Period

(Unit: in millions of RMB)

	Capital stock	Capital reserves	Surplus reserves	Investment revaluation reserves of investment	Property revaluation reserves of property	General provision	Foreign exchange	Retained earnings	Minority interests	Total equity
31 December 2006	31,113	(391)	—	(14)	102	—	—	879	5	31,694
Shares issued	7,920	36,916								44,836
Net profit								8,322		8,322
Net changes in fair value of available-for-sale investments				(76)						(76)
Realized net loss due to sales of available-for-sale investments				(8)						(8)
Revaluation gain of Bank property					54					54
Accrual statutory surplus reserves and general provision			829			3,731		(4,560)		—
Profit appropriation								(726)		(726)
Foreign exchange							(5)			(5)
31 December 2007	39,033	36,525	829	(98)	156	3,731	(5)	3,915	5	84,091

Major Off-balance Sheet Items

The table below set forth major off-balance sheet items and their balances as of the end of the reporting period.

(Unit: in millions of RMB)

	31 December 2007	31 December 2006
Credit commitments		
— Bank acceptance	**166,939**	132,000
— Guarantee issued	**32,547**	23,930
— Letter of credit issued	**36,016**	25,536
— Irrevocable loan commitments	**8,150**	5,694
— Credit card commitments	**16,934**	8,412
Subtotal	**260,586**	195,572
Operating lease commitments	**2,275**	1,779
Capital commitments	**391**	105
Pledged assets	**15,766**	1,744
Total	**279,018**	199,200

Supplementary Financial Indicators of the Three Years Prior to the End of the Reporting Period

The Bank, in accordance with the *Measures for Asset-Liability Management Monitoring, Monitoring Index and Appraisal of Commercial Banks* (Appraisal Measures) promulgated by PBOC in 1996 and other relevant laws, submitted several operating ratios to PBOC and CBRC in 2005, as stated in the table below:

Regulatory Index		**Regulatory standards**	**31 December 2005**
Capital adequacy ratio (%)		≥8	8.11
Core capital adequacy ratio (%)		≥4	5.72
Liquidity ratio (%)	RMB	≥25	60.69
	Foreign currency	≥60	68.00
Deposit to loan ratio (%)	RMB	≤75	66.43
	Foreign currency	≤85	37.77
Proportion of Inter-bank borrowing and lending (%)	Proportion of borrowing	≤4	—
	Proportion of lending	≤8	0.08
NPL ratio (%) based on “five-category classification” standards		—	4.14
Provision coverage ratio (%)		≥60	79.88
Proportion of the single largest customer loan to regulatory capital(1) (%)		≤10	8.49
Proportion of loans to top 10 customers to regulatory capital (%)		≤50	46.41

Note: (1) The Bank’s regulatory capital as of 31 December 2005 was calculated in accordance with the guidelines promulgated by CBRC.

The Core Index for Risk Surveillance by Commercial Banks (Provisional) (Core Index) (Provisional) enforced on 1 January 2006 modified the *Appraisal Measures* and introduced several new ratios. The table below set forth the ratios of the Bank as of 31 December 2007 and 2006 calculated in accordance with the *Core Index (Provisional)*.

				Data of the Bank	
Index category	**Primary index**	**Secondary index**	**Standard requirements (%)**	**31 December 2007**	**31 December 2006**
Risk level					
Liquidity risk	Liquidity ratio		≥25	**RMB: 38.90 Foreign currency: 110.01**	RMB: 38.66 Foreign currency: 99.98
	Core debt dependency		≥60	**48.62**	56.17
	Liquidity gap ratio		≥(10)	**3.63**	10
Credit risk	Non-performing assets ratio		≤4	**0.82**	2.45
		NPL ratio	≤5	**1.48**	2.50
	Credit concentration to a single group customer		≤15	**4.47**	6.9
		Loan concentration to a single customer	≤10	**3.41**	6.7
	Overall Credit exposure to connected parties		≤50	**3.88**	10.12
Market risk	Cumulative foreign currency exposure ratio		≤20	**11.42**	6.19
Risk mitigation					
Profitability	Cost-to-income ratio		≤35	**34.89**	43.85
	Return on assets		≥0.6	**0.97**	0.61
	Return on capital		≥11	**14.30**	13.07
Reserve adequacy(1)	Adequacy ratio of allowances for asset impairment		>100	**132.28**	160.84
		Adequacy ratio of provision for loan impairment losses	>100	**128.61**	148.21
Capital adequacy	Capital adequacy ratio		≥8	**15.27**	9.41
		Core capital adequacy ratio	≥4	**13.14**	6.57

Note: (1) In calculating reserve adequacy ratio for 2007, the allowances for the impairment of normal and special mention loans were deducted from the numerator.

Capital Adequacy Ratio

The Group calculated and disclosed its capital adequacy ratio in accordance with the *Measures for the Administration of Capital Adequacy Ratio of Commercial Banks* (Decree of China Banking Regulatory Commission [2004] No. 2) promulgated by the China Banking Regulatory Commission on 23 February 2004. Since 2005, the Group has calculated the market risk capital in accordance with the *Circular of China Banking Regulatory Commission Office on the Calculator and Calculation of the Market Risk Capitals of Commercial Banks* (CBRC [2004] No. 374) promulgated by CBRC.

Since 2001, the Group has adopted several measures to improve the capital adequacy ratio. CITIC Group injected capital amounting to RMB7.4 billion, RMB8.6 billion and RMB2.5 billion in 2006, 2005 and 2004 respectively. In addition, the Group issued subordinated debts and subordinated bonds with the face value of RMB6 billion and RMB6 billion in 2004 and 2006 respectively. The Group was listed in Shanghai and Hong Kong successfully at the end of April 2007, raising funds of RMB44.8 billion in total.

As of the end of 2007, the Group's capital adequacy ratio was 15.27%, an increase of 5.86 percentage points compared with the end of last year; the core capital adequacy ratio reached 13.14%, an increase of 6.57 percentage points compared with that of the end of the last year. The net capital amounted to RMB95.171 billion, an increase of RMB50.76 billion from last year. Risk-weighted capital totaled RMB623.3 billion representing an increase of RMB151.343 billion from that of the end of last year.

(Unit: in millions of RMB)

	31 December 2007	31 December 2006	31 December 2005
Core capital:			
Paid-up ordinary share capital	**39,033**	31,113	26,661
Reserve	**42,906**	(7)	(5,321)
Total core capital	**81,939**	31,106	21,340
Supplementary capital:			
General provision for doubtful debts	**3,621**	2,663	2,961
Subordinated debts[(1)]	**9,600**	10,800	6,000
Changes in fair value of financial assets for trading purpose	**101**	—	—
Total supplementary capital	**13,322**	13,463	8,961
Total capital base before deduction	**95,261**	44,569	30,301
Deduction:			
Unconsolidated equity investments	**90**	158	142
Total capital base after deduction	**95,171**	44,411	30,159
Risk-weighted assets	**623,300**	471,957	372,000
Core capital adequacy ratio	**13.14%**	6.57%	5.72%
Capital adequacy ratio	**15.27%**	9.41%	8.11%

Note: (1) Refers to the RMB6 billion subordinated debts issued by the Group in 2004 and the RMB6 billion subordinated bonds issued by the Group in 2006.

Major Accounting Estimates & Assumptions

The preparation of the financial statements in conformity with IFRS requires management to make certain accounting estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The accounting estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, and are reviewed on an on-going basis. The accounting estimates and associated assumptions made by the Group appropriately reflected the financial positions of the Group.

The main aspects influenced by estimates and judgements of the basis for compiling financial report of the Group includes: financial instruments confirmation and measurement (provisions for loan impairment losses and loan write-offs, classifications of debt and equity investments, measurement of financial instruments at fair value through profit or loss, measurement of available-for-sale investments at fair value, measurement of derivatives at fair value), accrual of actuarial obligations for pension and welfare, deferred taxation, and provision for income taxes.

Discrepancies between Domestic and International Accounting Standards

The following table is the Standards Discrepancy Reconciliation Form on the net asset and net profit attributable to the Bank's Shareholders:

(Unit: in millions of RMB)

	Net asset		Net profit	
	31 December, 2007	31 December, 2006	**2007**	2006
Amount in the Bank's report compiled according to the IFRS	**84,086**	31,689	**8,322**	3,858
Adjustments for difference arising from fixed assets and others assets revaluation	**50**	136	**(32)**	(132)
Amount in the Bank's report compiled according to the Accounting Standards for Business Enterprises of China	**84,136**	31,825	**8,290**	3,726

Segment Reporting

Segment Report by Geographical Segments

(Unit: in millions of RMB)

	Yangtze River Delta	Pearl River Delta and West Straits	Bohai Rim	Central region	Western region	Northeastern region	Headquarters	Hong Kong	Elimination	Total
2007										
Net interest income	**7,469**	**3,653**	**6,700**	**2,291**	**2,118**	**746**	**3,175**	**18**	**—**	**26,170**
Net non-interest income/ (expense)	**751**	**272**	**915**	**230**	**168**	**86**	**(672)**	**35**	**—**	**1,785**
Operating income	**8,220**	**3,925**	**7,615**	**2,521**	**2,286**	**832**	**2,503**	**53**	**—**	**27,955**
General and administrative expenses	**(3,155)**	**(1,644)**	**(2,501)**	**(997)**	**(859)**	**(295)**	**(2,301)**	**(43)**	**—**	**(11,795)**
Impairment losses	**(652)**	**(257)**	**(1,291)**	**(373)**	**(125)**	**(194)**	**(95)**	**(1)**	**—**	**(2,988)**
Profit before taxation	**4,413**	**2,024**	**3,823**	**1,151**	**1,302**	**343**	**107**	**9**	**—**	**13,172**
As of 31 December 2007										
Segment assets	**331,920**	**180,370**	**400,157**	**118,343**	**91,972**	**32,135**	**558,446**	**651**	**(702,808)**	**1,011,186**
Segment liabilities	**290,160**	**163,985**	**351,995**	**105,395**	**80,262**	**27,447**	**610,107**	**552**	**(702,808)**	**927,095**
2006										
Net interest income	5,222	2,327	4,584	1,545	1,500	490	805	—	—	16,473
Net non-interest income	417	136	511	112	55	24	113	86	—	1,454
Operating income	5,639	2,463	5,095	1,657	1,555	514	918	86	—	17,927
General and administrative expenses	(2,514)	(1,200)	(1,930)	(711)	(644)	(243)	(1,980)	(37)	—	(9,259)
Impairment losses	(88)	(78)	(819)	(285)	(232)	(119)	(45)	—	—	(1,666)
Profit/(loss) before taxation	3,037	1,185	2,346	661	679	152	(1,107)	49	—	7,002
As of 31 December 2006										
Segment assets	203,715	104,489	261,135	68,851	59,631	32,561	264,594	1,107	(289,360)	706,723
Segment liabilities	200,377	108,868	262,736	68,438	58,904	31,953	232,103	1,010	(289,360)	675,029

Yangtze River Delta, Pearl River Delta and West Straits, and Bohai Rim have always been the most important contributors to the Group's revenue and profit, accounting for 77.9% of the Group's total profit in 2007, an increase of RMB3.692 billion from last year. Businesses of the Group in Central, Western and Northeastern regions have been rapidly developing in 2007, which recognized an increase of RMB1.304 billion in operating profits compared to that of 2006.

Segment Reporting by Business Segments

(Unit: in million of RMB)

	Corporate Banking	Personal Banking	Treasury Business	Others and Unallocated Items	Total
2007					
Net interest income/(expense)	**20,882**	**3,429**	**2,322**	**(463)**	**26,170**
Net non-interest income/(expense)	**1,505**	**1,258**	**385**	**(1,363)**	**1,785**
Operating income/(expense)	**22,387**	**4,687**	**2,707**	**(1,826)**	**27,955**
General and administrative expenses	**(7,080)**	**(3,823)**	**(621)**	**(271)**	**(11,795)**
Impairment losses	**(2,866)**	**(130)**	**(7)**	**15**	**(2,988)**
Profit/(loss) before taxation	**12,441**	**734**	**2,079**	**(2,082)**	**13,172**
As of 31 December 2007					
Segment assets	**580,015**	**99,733**	**324,391**	**7,047**	**1,011,186**
Segment liabilities	**649,675**	**149,174**	**121,412**	**6,834**	**927,095**
2006					
Net interest income/(expense)	13,304	2,199	1,465	(495)	16,473
Net non-interest income	938	187	302	27	1,454
Operating income/(expense)	14,242	2,386	1,767	(468)	17,927
General and administrative expenses	(5,277)	(2,315)	(510)	(1,157)	(9,259)
Impairment losses	(1,638)	20	7	(55)	(1,666)
Profit/(losses) before taxation	7,327	91	1,264	(1,680)	7,002
As of 31 December 2006					
Segment assets	462,757	58,695	179,180	6,091	706,723
Segment liabilities	515,135	106,826	48,706	4,362	675,029

The Group has been able to maintain a leading position in corporate banking business. In 2007, banking business contributed operating profits of RMB12.441 billion to the Group. Due to the Group's increasing focus on developing personal banking business, it experienced a rapid growth in 2007, recognizing an increase of RMB643 million, or 706.6% in operating profits from last year. While the world experienced a depression in debt market in 2007, China faced a problem in excess liquidity. With the PBOC tightening the liquidity using different types of measures, the Group accurately grasped the market trends and policy directions, flexibly adjusted the investment structure, and effectively control the portfolio risk. The operating profit contributed from the treasury business increased by RMB815 million or 64.5% in 2007.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CHINA CITIC BANK
Integrate CITIC wisdoms to unlock
the door of wealth.

Business Overview

Corporate Banking Services

Operating Strategy

In 2007, based on the strategic objectives of "constructing the mainstream bank in corporate banking services among all small and medium-sized joint stock commercial banks", the Bank made concerted marketing efforts among its headquarters, branches and sub-branches, in actively pushing forward the development of a business platform of corporate financing, investment banking, industry financing and small enterprise financing business. Our diversified corporate banking operations achieved remarkable results, and the establishment of the regional marketing and sales management centers dedicated for corporate banking has been reinforced. Two thirds of the branches have become the mainstream banks in corporate banking services among the local small and medium-sized joint stock commercial banks.

The Bank implemented its client strategy of "high quality industries, high quality enterprises, mainstream markets and mainstream clients" for corporate banking services and provided tailor-made comprehensive financial service solutions to the bank's nearly 1,700 strategic clients through implementing the service strategy of "one strategy for one client, one team for one client". The Bank has constantly enlarged its high quality corporate banking client base and improved its contribution to the overall business. By the end of 2007, the deposit balance of the strategic clients of the Bank had amounted to RMB217 billion, up by 30.1% from that of 2006 and accounted for 33.91% of the total corporate deposits of the Bank; The balance of the loans to strategic clients amounted to RMB196.4 billion, up by 34.52% from that of 2006 and accounted for 41.94% of the total corporate loans of the Bank.

Operating Overview

Unit: in millions of RMB (Except percentages)

			Compare 2007 with 2006	
	2007	2006	**Increase amount**	**Increase rate**
Net Interest Income	**20,882**	13,304	7,578	56.96%
Net Non-interest income	**1,505**	938	567	60.45%
SG&A	**(7,080)**	(5,277)	(1,803)	34.17%
Asset Impairment Loss	**(2,866)**	(1,638)	(1,228)	74.97%
Pre-tax Profit	**12,441**	7,327	5,114	69.80%

- In 2007, the corporate deposits of the Bank had increased by 24.87%, corporate loan increased by 21.01% and the operating income increased by 57.19%.
- The cash management transaction volume of the Group amounted to RMB907.2 billion, and the number of banking clients increased by 288.02%. The transactions amount and client number of corporate Internet banking increased dramatically, representing an increase of 547.21% and 114.35% from that of 2006 respectively. The Internet banking replacement ratio reached 20.66%.
- The non-interest income of investment banking had increased by 89.35% from that of 2006 indicating a strong trend of increase in non-interest income.

- The business of industry chain financing had increased rapidly with 99 collaborating manufacturers and 1,603 dealers in auto financing and steel financing services, an increase of 54.13% over 2006. The accumulated credit extension for the dealers amounted to RMB97.2 billion, an increase of 75.14% from that of last year. The bank maintained its leading position in the market.
- The small enterprise credit extension balance had increased by 32.95% from 2006 with an NPL rate of only 0.94%, which indicates a stable and healthy growth in small enterprise financial business.
- The payment and receipt volume from international trade had increased by 41.7%, with its CAGR exceeding the growth rate of China national import and export for three consecutive years, which made the Bank still the No. 1 player among all small and medium-sized joint stock commercial banks.

In addition, the corporate banking service brand "CITIC Wealth Ladder" was awarded "2007 The Most Influential Brand in China Financial Service Industry" by China Brand Influence Forum Annual Summit.

Corporate Deposits Services

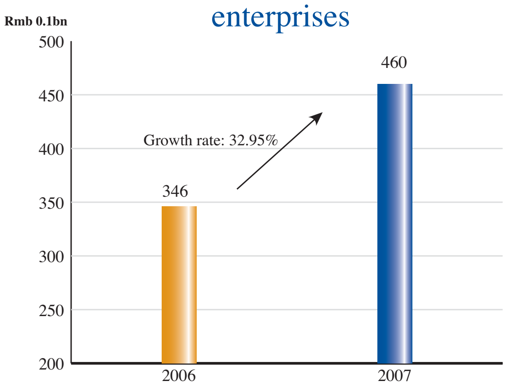
Deposits, cash management and third party depositary business for institutional clients of the Bank has developed rapidly and brought plenty of demand deposit for the Bank. By the end of 2007, the deposit balance of the Bank had reached RMB640.005 billion, an increase of 24.87% from 2006, accounting for 81.30% of the total deposit balance; among which the balance of demand deposit accounted for around 52.82% of the total balance with an increase of 1.90 percentage points from 2006; the proportion of the negotiated deposit was reduced to 4.50%, 4.49 percentage points lower than 2006.

Through the business of "Yin Cai Tong" and "Yin Shui Tong", the Bank focused on the deposit from the institutional clients such as the finance and tax bureaus. By the end of 2007, the Bank's deposit balance of institutional clients amounted to RMB130.7 billion, accounting for 20.42% of the total corporate deposit of the Bank.

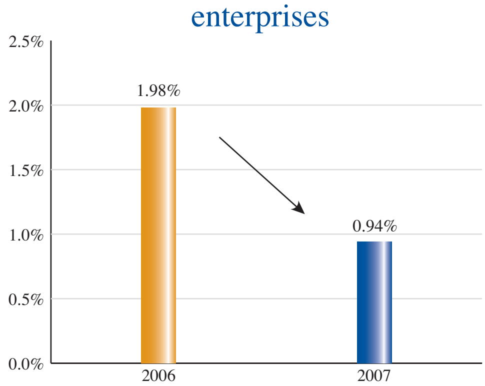
Financial Institutions Services

The Bank has signed Third Party Depository and Custodian Agreements with 50 brokerages, which has driven the substantial increase of financial institution deposit. By the end of 2007, the deposit balance of the financial institutions had reached RMB96.609 billion, or an increase of 208.45% from that of 2006.

Credit balance of small enterprises



NPL rate of credit business balance of small enterprises



Corporate Loans Services

While maintaining the leading position in the corporate loan market, the Bank kept on optimizing its industry structure, client structure, regional structure and product structure. The Bank focused on servicing high quality clients in monopolized, resource-based and regional backbone industries that play important roles in the national security and people's welfare, and strengthen the loan extension in the Yangtze River Delta, Pearl River Delta as well as Bohai Rim. At the same time, the Bank endeavored to withdraw from the industries that were greatly influenced by the economic fluctuations and the macro adjustment and control. In this way, the Bank has kept a constant, stable and healthy development in its various businesses. By the end of 2007, the corporate loan balance of the Bank had reached RMB501.939 billion, an increase rate of 21.01% over the last year among which the discounted bills amounted to RMB33.599 billion, a drop of 26.38% from the last year.

As a strategic adjustment to optimize asset business structure, the Bank strengthened the marketing promotion of small enterprise financing business in areas with great potential and excellent credit environment. The number of pilot branches conducting credit extension for small enterprise credit business increased to 7, including business department of the headquarters, Hangzhou, Nanjing, Suzhou, Ningbo, Fuzhou, and Xiamen Branch. The Bank established the credit guarantee platform for small enterprises and enhanced its risk control over loans to small enterprises. By the end of 2007, the total number of small enterprises receiving credits or loans from the Bank had reached 6,591, an increase of 13.60% over the last year, and the credit balance reached RMB46 billion, an increase of 32.95% over the last year; the balance of NPL of small enterprises was RMB0.43 billion, down by RMB0.28 billion from the last year with an NPL ratio of only 0.94%.

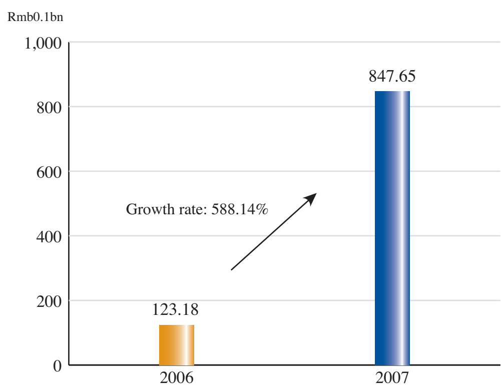
Non-interest Income Products and Business

The Bank continued to further diversify its banking service and targeted to increase the percentage of non-interest income in its total income. While maintaining the advantages in traditional non-interest income services such as settlement and guarantee, the Bank rapidly launched new businesses such as investment banking services and custodian services, Internet banking and cash management service. At the same time, the Bank continued to strengthen the cooperation of product development with other financial subsidiaries of CITIC Group to promote the development of the corporate non-interest income services. By the end of 2007, the net non-interest income from corporate clients of the Bank was RMB1.505 billion, accounting for 84.31% of the Bank's total net non-interest income, an increase of 60.45% from last year. The net non-interest income from settlement businesses was RMB0.236 billion, accounting for 15.68% of the total non-interest income of corporate business. The net non-interest income from acceptance and guarantee business was RMB0.295 billion, accounting for 19.6% of the total net non-interest income of corporate business; the non-interest income from the investment banking service was RMB0.320 billion, accounting for 21.26% of the total net non-interest income of corporate banking service.

International Settlement International settlement business of the Bank maintained a CAGR of 42% for the recent three years, higher than the growth rate of China national import and export volume, seeing its market share increasing to 5.1% from 4.8% of last year. By the end of 2007, the business volume of international settlement of the Bank was up to US$93.4 billion, an increase of 41.7% from last year, and yielded a net non-interest income from international business of RMB0.213 billion, up by 9.79% from last year, accounting for 14.15% of the total net non-interest income of corporate business. According to the statistics of ICC, the Bank maintained its leading position among small and medium-sized joint-stock commercial banks.

Investment Banking Services Leveraging on Citic Group's comprehensive financial service platform to promote cross-selling of products, the Bank managed to grow its investment banking services, based on structural financing service, and focused on products of syndicated loans, export credit, off-balance-sheet financing. Major efforts have been focused on direct financing services such as bond underwriting, financial advisory and asset management. By the end of 2007, the Bank had underwritten RMB26.7 billion of short-term financing securities, up by 16.06% from the previous year Net non-interest income of the investment banking business amounted to RMB320 million, up by 89.35% from 2006, representing 21.26% of the total non-interest income of corporate business, among which, the increase of income from asset management and financial advisory, compared with that of the same period of the previous year, had reached 173.28% and 220.14% respectively. A syndicated loan jointly led by our Bank was awarded "the Best Loan in China for 2007" by IFR Asia.

Asset Custodian Services



Internet banking and Cash Management Services The Bank paid special attention to the development of corporate Internet banking service and had completed the system development of corporate Internet banking system V5.0 with new function modules of electronic notes, the third party depository and custodian service and electronic reconciliation to expand the service scope of Internet banking. By the end of 2007, the Bank had 24,095 corporate Internet banking clients, an increase of 114.35% from the previous year and the transactions amount was RMB3,453.7 billion, an increase of 547.21% from the previous year; In terms of the transaction amount, the replacement ratio of the corporate Internet banking reached 20.66%, 12 percentage points higher than the previous year. The Bank endeavored to provide cash management service for its group clients: by the end of 2007, 367 group clients had received this service. Total transaction value amounted to RMB907.2 billion. The number of clients increased 288.02%, which effectively drove the growth of non-interest income business.

Asset Custodian Services The asset custodian service of the Bank consists of eight product fields including mutual fund, trust assets, asset management by securities companies, QDII, asset-backed securitization, industry fund/venture capital, private equity fund, corporate annuities. By the end of 2007, compared with the previous year, the total value of the custodian asset of the Bank was RMB84.765 billion, an increase of 588.14%; the net income from custodian was RMB0.135 billion, an increase of 743.75% from the previous year, which accounting for 8.97% of the total corporate net non-interest income. While developing the mutual fund custodian business, the Bank also expanded its custodian business scope to more areas such as industry fund/venture capital fund, private equity fund and asset-backed securitization. With the approval of China Ministry of Labor and Social Security in November 2007, the Bank obtained the custodian qualification for corporate annuities with the No. 1 place in the assessment process.


中信银行

Retail Banking Services

Operating Strategy

The Bank paid special attention to the development of retail banking service. Since the launch of its retail banking strategy in 2005, the Bank has defined its strategic objective of "3 steps in 3 years", aiming to constructing a retail banking system with unique CITIC characteristics. It mainly includes the following four aspects:

Implementation of "Three Dimensions & Four Driving Forces."

Implement the retail banking strategy of "three dimensions & four driving forces", which requires the integration of the three dimensions of customers, products and core competencies with the mobilization of all staff, interaction between consumer and corporate sector, quality products and high professionalism as the driving forces.

- Motivating and inspiring every staff to develop retail banking;
- Develop retail banking business from corporate clients in whole-sale mode, and foster balanced growth of retail and corporate business;
- Drive by products, improve the Bank's attractiveness and market impacts through diversified financial service, and build customer basis and broaden source of saving deposits;
- Enhance professional service standard via promotion of professionalism and the establishment of designated private relationship manager team.

The Path of "Three Steps"

The Bank follows the development path of "three steps", to simultaneously develop the three steps, namely, client accumulation, client management and value-added service to cater to different level of client's demand with differentiated products and services offerings.

To build up a retail banking service system with unique characteristics of the Bank

- To focus on highly-concentrated client management, to reduce dependence on physical outlets and number of staff by serving clients collectively via electronic channels;
- To increase technology substitution rate and make full use of electronic channels to develop retail banking service at lower cost;
- To build up product and service system for high and middle-end clients according to our market positioning of serving high value clients.

Development of Three Profitable Areas

To focus on developing the three key profitable areas of consumer loans, wealth management and credit card to improve the profitability of retail banking service of the Bank.

The client base of the retail banking services of the Bank keeps growing. By the end of 2007, the Bank had around 12.01 million retail banking clients, an increase of 11.2% over previous year. The Bank had 66,606 VIP clients(1), 27,810 more than last year, representing an increase of 71.7%.

Note: (1) VIP clients: total AUM exceeding (or equal) RMB500,000.

Business Overview

Unit: in millions of RMB (Except percentages)

		Compare 2007 with 2006		
	2007	2006	**Increased amount**	**Increased rate**
Net Interest Income	**3,429**	2,199	1,230	55.92%
Net Non-interest income	**1,258**	187	1,071	572.73%
SG&A	**(3,823)**	(2,315)	(1,508)	65.14%
Asset Impairment Loss	**(130)**	20	(150)	(750.00%)
Pre-tax profit	**734**	91	643	706.59%

The retail banking services of the Bank continued to grow rapidly. By the end of 2007, the balance of consumer saving deposits increased by RMB99.432 billion from the end of 2004, realizing the objective of the development strategy of "three years three steps" put forward in 2005 for retail banking business. In 2007, the consumer deposit increased by 39.06%, the personal loans increased by 57.29%, and the operating income increased by 96.44%. The non-interest net income from retail banking of the Bank was RMB1.258 billion, an increase of 572.73% from the previous year. The income from fund fee charge was RMB0.149 billion, an increase of 1,390%. The net fee income from wealth management products was RMB0.594 billion, an increase of 3,673%. The net income from credit card fee charge reached RMB0.336 billion, an increase of 133% from the previous year.

The main achievements for retail banking of the Bank are as following:

- The three profitable areas of individual wealth management, consumer credit and credit card have achieved obvious effect.

  The turnover from the wealth management products amounted to RMB103.8 billion. The sales turnover made the Bank the top leader among all small and medium-sized stock commercial banks;

  The balance of individual loans, compared with that of the previous year, increased by 57.29% accounting for 13.23% of the total loans, 2.79 percentage points more than the previous year;

  The number of accumulated credit card issuance of the Bank exceeded 4 million. The transaction amount of the whole year exceeded RMB20 billion, realizing a profit of RMB15.6 million. We're among the first domestic banks to enter the profit-making period in credit card business.

- The establishment of electronic channel of individual Internet banking, telephone banking, CDMs and CRSs and multimedia outlet also made rapid progress. The number of individual Internet banking advanced clients and the individual Internet banking transactions volume increased by 813% and 726% respectively. The replacement ratio of electronic transactions and automatic equipment reached 47%.

- The Private Banking Center targeting high-end clients[(1)] was established in August 2007 with the initial operation system and management structure in place.

Note: (1) High-end clients: total AUM exceeding (or equal) RMB5 million.

The Bank had won various honors from both home and abroad for its retail banking services in 2007:

The Bank was awarded "China Branch Outlet Innovation Achievement Award" for its project of "Outlet Innovation and Service Quality" in the selection of "Asia-Pacific Retail Financing Service Outstanding Award" by The Asian Banker magazine press;

"CITIC Wealth Management" was honored the top 10 "2007 Best Brand Building of China" by INTERBRAND, the world biggest brand consulting Company and the 21st Century Business Herald.

The Bank won three awards of "Most Popular RMB Wealth Management Product", "Most Popular Foreign Exchange Wealth Management Product" and "Most Popular Bank Card Product" in the selection activity of "Joyo 2006 Most Popular Wealth Management Product" held by the magazine Joymoney;

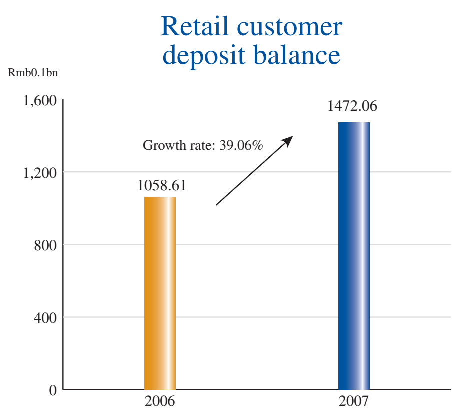
The China CITIC Magic Credit Card won the award of "Influence 2007 Fashionable Wealth Management Brand" in the selection series of "Influence 2007 Fashion Festival";

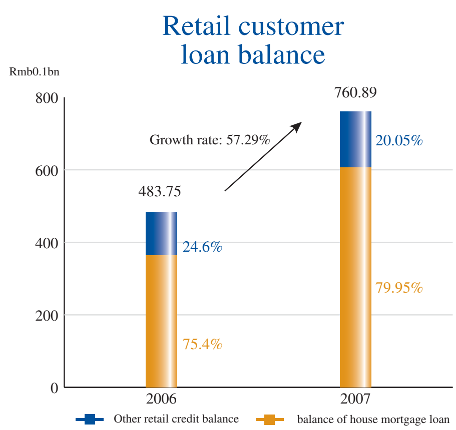
The China CITIC and Coca-Cola joint credit card was awarded the "Brand Cooperation Best Achievement Award" by Visa international.

Retail AUM[(1)]

Faced with the market changes such as the outflow of individual saving deposits due to the active domestic capital market in 2007, the Bank focused on gaining clients and income by providing integrated financial service to drive the growth of saving deposits through promoting wealth management products as well as mutual fund sales. By the end of 2007, the balance of retail management assets reached RMB187.618 billion, or an increase of 67.9%, among which the balance of personal saving deposits was RMB147.206 billion, representing an increase of 39.06%, or RMB41.345 billion from the previous year.

Note: (1) Retail AUM: the total of individual saving deposits and wealth management products.





Retail consumer loans

In 2007, the Bank continued to speed up the development of retail consumer loans with proper risk control measures. By the end of 2007, the retail consumer loans of the Bank had reached RMB76.089 billion, up by 57.29% from the previous year, among which the balance of residential mortgage was RMB60.833 billion, up by 66.8% from the previous year, accounting for 79.95% of total retail consumer loans and 4.54 percentage points higher than the previous year.

In 2007, the Bank opened personal loan centers at 25 tier 1 branches and 17 tier 2 branches, enhancing the centralized control of operational risks. Aiming to construct a scientific individual credit scoring system, the Bank launched the retail assessment program in compliance with New Basel Capital Accord.

We strengthened the innovation of retail asset business while effectively controlling the underlying risks. In order to meet individual demands of customers, we have developed flexible terms of repayment for individual mortgage loan, self-serviced early repayment, weekly and bi-weekly repayment, grace period repayment, and deferred repayment. Considering that China is putting more and more emphasis on the regulation and control of real estate market, the Bank, not only focuses on the development of individual mortgage loan, but also tried to launch new products suitable with the characteristics and demands of specific customers in different areas, such as personal auto loan for specific auto model, individual credit loan, and pledged loan against operating taxi license.

Wealth Management

In light of the surging demands for investment and wealth management, the Bank has fully utilized the financial platform of CITIC Group to launch a series of wealth management products in the area of stocks, trust, mutual fund, foreign exchange and QDII together with other financial subsidiaries such as CITIC Securities, CITIC Fund and CITIC Trust. The "New Share Subscription" RMB wealth management products, new shares + fund investment products and financial plans investing in financial stock trusts are all the first of its types in China. In 2007, the Bank had sold 163 financial products of both domestic and foreign currencies, totaling RMB103.79 billion, up by 255.4% from the previous year. The net wealth management products fee charge accounted for 33.28% of the total net non-interest income. Therefore, wealth management has become the Bank's largest non-interest income source. The number of wealth management clients has reached 1.02 million, an increase of nearly 0.90 million from the previous year.

"CITIC VIP Wealth Management" is our brand targeted at VIP clients. In 2007, the Bank integrated the 12 service items such as golfing, airport boarding, legal advisory and vehicle rescue into a value-added service system for VIP clients and provided customized wealth management service for over 60,000 VIP clients with 60 VIP wealth management centers and 348 VIP wealth management offices as well as around 1,000 highly experienced wealth management customer managers.

Credit Cards

Since 2007, the number of new credit cards issuance had increased rapidly and our client base further expanded. Ever since the first profitable year of December 2006, the Bank had entered a period of sustainable profit growth with pre-tax earning amounted to RMB15.53 million. 4.22 million credit cards had been issued with 1.9386 million new credit cards issuance in 2007, representing an increase of 91.91%. Total transactions amount and year-end loan balance were RMB23.435 billion and RMB4.25 billion, up by 208% and 227% respectively from the previous year. The income from credit card business was RMB0.516 billion, up by 211.7%.

In 2007, the Bank had made new progress in credit card product innovation and client management. Thru the introduction of CITIC Magic Platinum Card in May, the Bank had become the most diversified card issuer for women and its related services in China. The Bank also issued the first co-brand credit card — "CITIC Coca-cola Co-brand Credit Card" in June, with Coca-Cola, a world famous consumer brand. In September, the Bank and America Express co-issued the "CITIC American Express Credit Card", a landmark product featuring differentiated market competition and targeting at high-end clients.

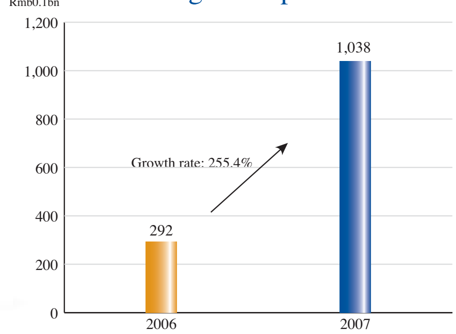
Since 2007, the core competency of credit card center of the Bank has been further improved. Our platinum card service was fully upgraded in May. After smoothly receiving annual certification by ISO international, our credit card center was granted the title of "2007 China Best Call Center" by China Information Promotion Alliance & Customer Relationship Management Commission. We also won the award of "2007 Best Corporate Self-built Call Center" granted by the only national call center association in China, the CNCCA. This is the only China award that meets the standards required in Asian Pacific region and also the only sector award recognized by the Ministry of Information Industry of China.

Channel Construction and Service Quality Management

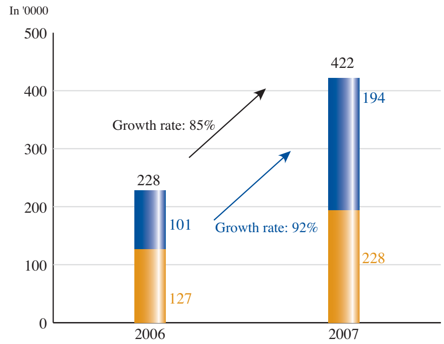
In 2007, we focused on training to improve service standards of counter staff and set forth the plan for service quality check regarding the services provided by branches. To further improve the inspection process, we have also implemented a "Mystery Customer" mechanism to conduct service quality and customer satisfaction survey with the aim to identify and solve problems in its early stage. Due to the outstanding performance in branch channel construction and service quality, the Bank were awarded the "Branch Outlet Innovation Achievement Award" in the contest of "Asia-Pacific Retail Financial Service Outstanding Award" by "Asian Banker".

In addition, the Bank keeps accelerating its construction of electronic retail banking platform (for details, please refer to Management Discussion and Analysis — Distribution Channel).

Sales of wealth management products



Total No. of credit cards issued



Treasury and Capital Market Business

Unit: in millions of RMB (Except percentages)

			Compare 2007 with 2006	
	2007	2006	**Increased amount**	**Increased rate**
Net Interest Income	**2,322**	1,465	857	58.50%
Net Non-interest income	**385**	302	83	27.48%
SG&A	**(621)**	(510)	(111)	21.76%
Asset Impairment Loss	**(7)**	7	(14)	(200%)
Pre-tax profit	**2,079**	1,264	815	64.48%

The Bank provides clients with treasury products and services under the business model of Sales and Trading and conducts proprietary asset management and trading. The main products of Sales and Trading include foreign exchange trading, fixed income and derivatives, through which, the Bank also provides risk management, investment and financing service to individual, corporate and financial institution clients. Asset management mainly refers to investment and trading in securities.

Under effective risk management, in 2007, the Bank continued to strengthen its leading position in the market place and established a positive market image through product innovation and improving transaction capacity. The treasury and capital market turnover was RMB2.707 billion, an increase of 53.20% from the previous year, accounting for 9.68% of the total business income.

Sales and Trading

In 2007, the Sales and Trading of the Bank mainly focused on the four aspects of product, client, team and process to improve the core competency. The non-interest income from treasury and capital market business of the Bank in 2007 was RMB385 million, an increase of 27.48% from the previous year, accouting for 21.57% of total non-interest income.

The Bank maintained its traditional advantage in foreign exchange business in 2007 with its spot foreign exchange market-making transaction volume taking the leading position among all foreign and domestic banks in China and its market shares increased significantly. It was elected the best foreign exchange trading service provider (No. 2) in Chinese region for the second time by Asia Money. The transaction volume of exchange settlement and sales amounted to US$73.9 billion with an increase of 39% from the same period of the previous year, the market share of which remains to be the leading position among small and medium-sized joint-stock commercial banks.

The Bank was officially qualified to provide quotes for RMB interest rate exchange business based on SHIBOR in 2007. The transaction volume of this service in 2007 amounted to RMB17.3 billion, among which RMB interest rate swap service based on SHIBOR amounted to RMB12.1 billion maintaining leading position in the market. At the same time, the Bank introduced and developed the foreign exchange option system to improve the quoting capacity of the Bank for foreign exchange options.

In November 2007, the Bank reached the first deal on RMB interest rate forward; In December, the Bank obtained the qualification of RMB foreign exchange currency swap and conducted the first RMB foreign currency swap transaction.

Assets Management

Dealing with US sub-prime crisis in 2007 and the market impacts from central government's macroeconomic policy, the Bank adopted both top-down and bottom-up investment decision-making approach and reasonable investment decision-making mechanism to improve the efficiency and scientificness of asset management.

With regard to the market fluctuation in 2007, the Bank timely started its dynamic management to strengthen the control of credit risk and market risk, and maintained a good asset quality. The Bank insisted on the short-long-term strategy in RMB investment with properly enlarged scale obtaining a higher earning throughout the year.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Reform of Management System

In 2007, the Bank launched the reform of its operational and organizational structure in a steady manner for the purpose of improving management efficiency and risk control capability so as to be able to provide better services to customers.

Optimize Organization Structure of Front Office

The Bank has established Credit Card Center, Investment Banking Center, Auto Financing Center, Private Banking Center, and Custodian Service Center based on semi-business division model which promoted the rapid growth of new businesses, and improved its professional service level for high-end clients.

Enhance Centralized Risk Control

Risk Management: The Bank has established a Post-Loan Management Department independent of the Risk Management Department to be responsible for monitoring and analyzing the Bank's asset quality, and in charge of the post-loan management of corporate lending, retail lending, capital lending and other relevant lending businesses. It also monitors the risks of the group clients and takes precautionary measures accordingly. Thus the post-loan management can be further enhanced.

Accounting Procedures: The Accounting Book-keeping Center is fully operational, which processed back-office accounting functions on concentrated basis. This signifies the successful segregation between front and back office so as to lower the operation risks and cut labor costs. In 2007 the Bank has realized the centralization of the accounting in Headquarters and branch levels, and the centralization of the accounting function of asset business to the branches from all sub-branches.

Treasury Business: Reassign the back-office function, such as the settlement unit, the clearance unit and the accounting unit to the Accounting Department so as to strengthen the internal risk control.

Reinforce Financial Management

At present, the Bank is committed to the establishment of management accounting project, a brand new design of management accounting system will allow multi-level cost allocation focus on the accounting of core business sectors and fully reflect the business operating costs, all these specific measures will enable multi-dimensional analysis in costs and profitability categorized by organizations, business sectors, products, industry sectors and clients. The Bank has taken the advantage of this precious opportunity to fully implement the idea of responsibility costs across the Bank, to gradually establish an evaluation mechanism determined by value creation and an internal resources allocation mechanism based on value creation. This will provide huge support to the Bank's strategic transition and its changes of business models, it also strongly supports the management's decision-making on the optimization of business structure, thus, improving the Bank's management and earning capability.

Advantage of Comprehensive Financial Service Platform of CITIC Group

CITIC Group has subsidiary companies in banking, securities brokage, fund management, trust, insurance and futures business, and many of these subsidiaries are leaders in their respective business sectors. Based on this

comprehensive financial service platform, the Bank is gradually building up its unique competitive advantages.

Providing Comprehensive Financial Solution

By cross-selling of financial products and conducting joint marketing for important projects, the Bank provided differentiated comprehensive financial services to the clients so as to enhance the share of wallet.

- Short-term financial bond underwriting. The Bank together with CITIC Securities has underwritten a total of RMB1.4 billion of short-term financial bonds for China Machinery Industry Group.

- Issuing trust financing products. Together with CITIC Trust, the Bank provided low cost trust financing service of RMB3.2 billion for 7 high quality clients such as GD Power Development Co., Ltd. and China Unicom Xinshikong Co., Ltd.

Promoting Sharing of Client Resources and Marketing Channels

- Sharing of Client Resources. The Bank and securities companies under CITIC Group started the third party depository services, which allow the securities clients to deposit their funds in the saving account at the Bank. By the end of 2007, the Bank has attracted 348,000 new customers in third party depository and bank-securities account transfer business, showing an increase of 87% from the previous year, 93% of which are from securities companies under CITIC Group.

- Sharing of Channels. The Bank conducts marketing campaign through resources sharing with the subsidiaries of CITIC Group and marketing team, which has enabled the Bank to effectively expand its service coverage and reduce operation costs without building new outlets. Currently, both the Bank and CITIC Securities have fully share the network with each other.

Conducting Cross Design and Cross Selling

The Bank made full use of its unique advantage in the flexible design of wealth management products that can be easily linked with any primary assets, and collaborated with CITIC Trust, CITIC Fund, CITIC Securities, CITIC Construction and Investment Securities and CITIC Prudential Insurance Company Limited under CITIC Group to enter new markets and develop innovative products, e.g., the first of its kind financial investment products like “New Shares Subscription” which is a RMB wealth management product, new shares plus fund investment products and stock option trust investment products. The Bank had sold 71 kinds of wealth management products in collaboration with companies under China CITIC Group with a turnover of RMB91.96 billion, 7.1 and 7.4 times that of the previous year respectively.

- The cooperation between the Bank and security companies, especially CITIC Securities, has become deeper in every aspect. So far, there have been seven products designed by both parties, the sales turnover has exceeded RMB18.7 billion.

- The Bank together with CITIC Trust has developed fixed-income products, and products linked with the capital market and stock option including the first investment product on stock investment, "Jinxiu Plan I", which is the first one of its kind in China banking industry, whose accumulated return has exceeded 150% by the end of 2007.

- In addition to acting as fund sales agency, the Bank has also cooperated with CITIC Fund in designing 10 investment products. They are the first integrated new share and mutual fund product to be introduced to the market. The sales turnover of 10 kinds of products amounted to over RMB24.2 billion.

- Cooperation with CITIC Prudential Insurance Company Limited has become closer. The two parties call on a cooperation commission meeting every quarter, and in addition to the traditional counter sales they have also developed clients through the "Sky plus Ground" sales model which allows clients to make appointments by dialing 95558 or going to the outlet counters.

Cooperation with Strategic Investors

In 2007, based on the Agreement of Strategic Cooperation, the Bank has strengthened its cooperation with the strategic investor Banco Bilbao Vizcaya Argentaria, S.A. (BBVA) in corporate banking, retail banking, treasury and capital market, risk management, information technology and talents exchange program.

Investment Banking: The Bank actively promoted the cooperation in project financing and cross border M & A to expand business scope and market influence of both parties.

International Business: The Bank and BBVA shared client resources. The Bank has achieved a significant breakthrough in developing trade financing products and government loans. BBVA has allowed the Bank a gradual access to its branch network in Latin Americas.

Retail Banking: Cooperative efforts target areas include private banking, wealth management and auto financing.

Treasury and Capital Market: The two parties have fostered their cooperation in products and marketing. The realization of sharing operation system and marketing network ensured the delivery of more integrated services.

Risk Management: The Bank has cooperated with BBVA in implementing New Basel Capital Accord, BBVA participated in making the 5-year project scheme and will send experts for the development of its sub-projects.

Information Technology: The Bank has studied the private banking and auto financing information system of BBVA to further prepare for setting up its own system.

Human Resources: Hundreds of staff of BBVA and the Bank were involved in exchanges.

Distribution Channels

Branch Network

Within the reporting period the Bank has accelerated its new opening of branch outlets with geographical emphasis on the more developed provincial capital cities in middle and western part of China for more balanced distribution of branch outlets and strengthened radiating impact of various services; As for in-city branches expansion, the Bank paid more attention to open new outlets in economic centers like Beijing, Shanghai, Guangzhou and Hangzhou, which further reinforced the Bank's competitive advantages in these key cities.

By the end of 2007, the branch institutions and outlets of the Bank has reached 485 including 28 tier-one branches, 17 tier-two branches, 439 in-city branches and one finance company. In 2007 the Bank established 3 tier-one branches and 1 tier-two branch in Bohai Rim and the mid-west areas with geographical focus on the comparatively developed area such as the Yangtze River Delta, Pearl River Delta and West Strait and Bohai Rim. In addition, the Bank's Nanning Branch has received the business lisence approval from China Banking Regulatory Commission.

Self-Service Banking Centers and Self-Service Facilities

The Bank continued to expand its network of self-service banking and self-service facilities to reduce operation costs and increased the profitability of the outlets. By the end of 2007, the Bank had built 728 self-service banking centers and 2,127 self-service terminals (including ATMs, integrated CDMs and CRSs), an increase of 59.6% and 29.3% from the end of 2006 respectively.

Electronic Banking

Internet Banking

The Bank had made tremendous progress in improving the customers' convenience and satisfaction, and raised technology replacement ratio to realize low-cost expansion in Internet banking business. The Internet banking system has been constantly optimized and

is now upgraded to version 5.0, which added new function modules such as electronic bill payment, third-party depository business and electronic account reconciliation, and has expanded the service scope of Internet banking. Retail Internet banking services have further enriched and optimized the system and transaction functionality with the focus on the enhanced functionality in investment and wealth management to elevate the convenience and efficiency in payment and transfer. All the functions add up to 181 types of 9 categories, moving towards the leading position among peers. The Internet banking services of the Bank won the "Chinese Internet Banking business development Prize" awarded by Chinese Financial Certification Authority.

In 2007 the Bank has had 24,095 corporate internet bank clients and 625,042 individual internet bank clients, an increase of 114% and 342% respective from the previous year; the corporate Internet banking transaction amounted to RMB3,453.7 billion, an increase of 547%

from the previous year and the retail Internet banking transaction amounted to RMB21.6 billion, an increase of 813% from the previous year.

Telephone Banking

The Bank provides 24 hours by 7 days phone banking services for clients through telephone banking hotline 95558 throughout the country. In 2007 the Bank upgraded the phone banking system to Version 3.0 and expanded online transaction and telemarketing functions. Meanwhile, through integrating and analyzing the data sourced from customers, the telephone banking service was also capable of providing personalized customer services, such as VIP boarding, auto rescue services and reservation of golf games.

Information Technology

In 2007 the Bank successfully realized data centralization of the whole bank as planned and completed the development and implementation of a series of application projects. In addition, the Bank also strengthened the risk prevention capability of the information system via external auditing and improving the internal mechanisms. The enhanced supporting function of information technology in business development and management of the whole bank continued to improve.

In application systems, the Bank completed the development and implementation of over 60 projects such as note photography, third party depository service, government bonds and foreign exchange paper gold to offer broader selections of products and services to the clients.

In channel building, the new version of call center integrating the three main functions of consulting service, online transaction and telemarketing has been completed. The self-service terminal system with unified transaction flow, interface style and rich transaction contents for the whole bank has been put in stage by stage testing in branches. The Bank has completed the development of Internet banking V5.0 which became operational by February 2008.

In management information system development, the Bank upgraded the asset and liability management system and loan management system, launched the management accounting project, developed and implemented the corporate strategic customer management system and off-spot inspection and auditing system in 2007.

To ensure the consistent, safe and stable operation of the Bank's information system, the Bank completed the construction of in-city disaster recovery center and the expansion and innovation of backbone network around the country in 2007. The Bank also conducted external risk evaluation on information technology risks and electronic banking risks. The mechanism management of the information technology and information system production has been further strengthened.

Human Resources Management

According to the principle of coordination, effective motivation and strict controlling, the Bank kept on strengthening the human resource management in 2007.

The Bank actively promoted the adjustment and arrangement of management teams in branch institutions and the Bank's headquarters, improved evaluation and appointment mechanism, replenished the backup team. By selecting, organizing and adjusting the management teams, the Bank made obvious progress in strengthening the management, execution ability and competitiveness of the departments in both branch level and headquarters.

The Bank constantly adjusted and optimized employee structure. The Bank recruited talents with competitiveness and met the needs of the Bank via various recruiting channels by introducing evaluation tools and establishing test question databank. Besides, the Bank also conducted structure adjustment for current employees and strengthened the exit mechanism.

The Bank reformed the remuneration management system. According to the changes of the market and the demand of the competition, the Bank designed remuneration regulation for private banking, account manager and other positions according to the characteristics of different positions. The Bank regulated the basic payroll regulation by sorting out the position hierarchy and completing the welfare and insurance system as well as housing reserves and complementary pension system; launched the design of long-term incentive plan for the management team.

Training and development of human resources

The Bank had held over 4,000 various training projects throughout the Bank, with 150,000 attended trainees and each staff received 9.7 trainings on average in 2007.

The Bank enhanced its talent training. The Bank enhanced the training for middle-level and senior management by cooperation with prestigious universities from both home and abroad, training institutions and BBVA to implement key training projects and established the core talent training system with classification, categorization, featuring in multi-form and thru multi-channel.

The Bank emphasized on all-staff training. By actively organizing the banking staff qualification training and on-job-training throughout the Bank, it endeavored to build up a professional team catering to the future demand of the Bank's development. At the same time, the Bank promoted the E-learning platform with over 100 online courses with an online coverage ratio of 82%, which had become an important platform for the Bank's staff training.


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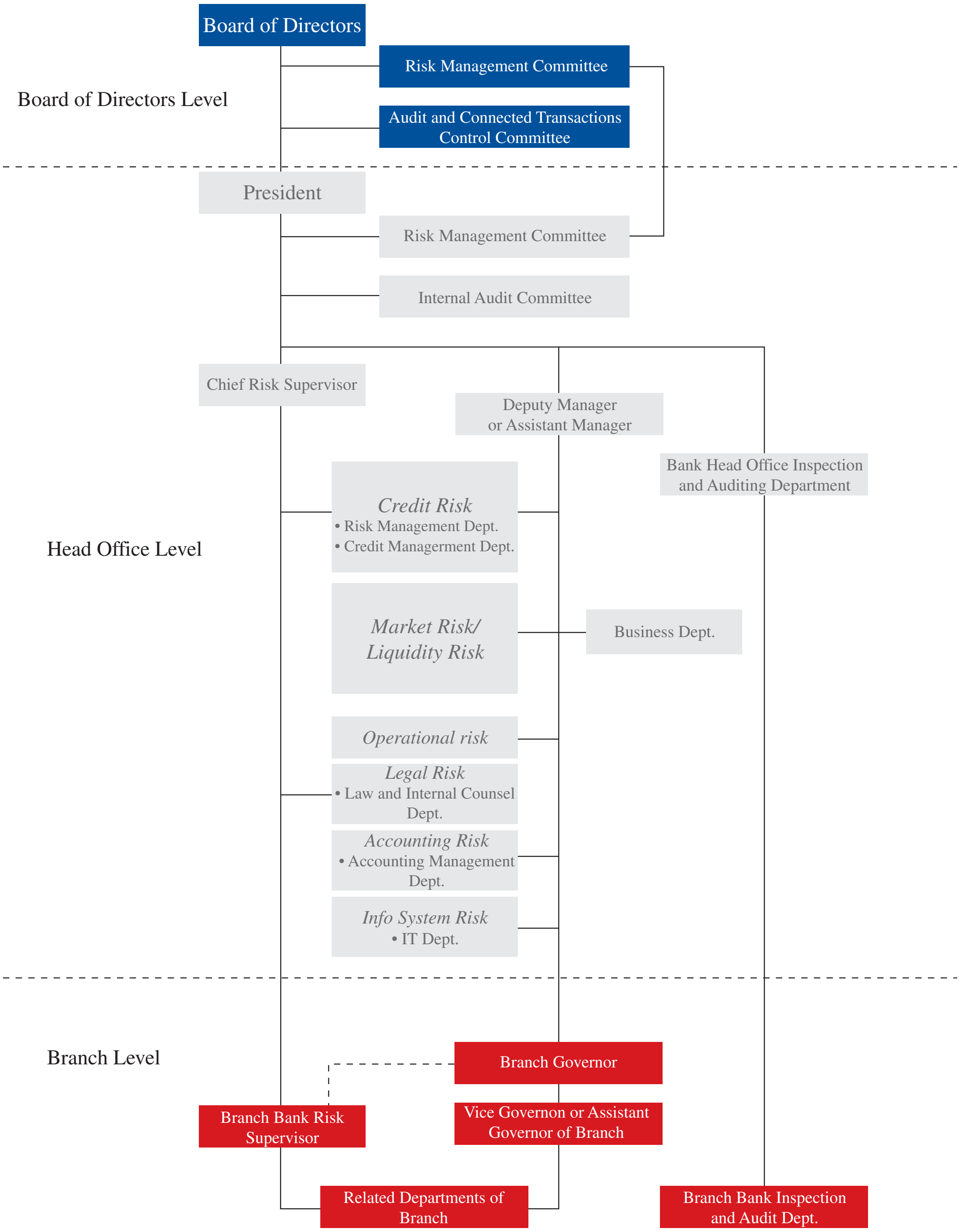
Risk Management

Risk Management System



Credit Risk Management

We are exposed to credit risk primarily through our loan portfolio, investment portfolio, guarantees and commitments, and other on- and off-balance sheet credit exposures.

Risk Management for Corporate Loans

In 2007, the Bank continued to focus on developing high quality clients in monopolized, resource-based industry and high quality clients in regional backbone industry, which had great influence on the national security and people's welfare, and small-and-medium sized enterprises with growth potential in the industry chains. For clients whose industries were susceptible to the government's macroeconomic policy, the Bank had categorized them based on the estimated degree of risks, for those clients who were likely to default, the Bank carried out the early warning mechanism to tackle each of them and established corresponding risk control measures.

Credit Extension Policy

At the beginning of 2007, the Bank established the credit policy for the whole year according to the guideline of "highlighting quality industries, quality enterprises to secure stable and healthy growth; optimizing loan portfolio to improve efficiency; operating business with flexibilities and compliance with regulations; innovating and strengthing the competitiveness of the Bank". The Bank formulated credit extension policy for the year taking into accounts of the industries, regions, lines of product and customers base with an aim to guide the Bank to invest its credit resource in optimum market and high quality clients so as to optimize the credit structure of the Bank.

The Bank timely adjusted the credit extension policy to the high-energy consumption and high pollution industries according to the change of macro economic trends, and tightened the credit extension by raising standards in environmental protection, technological standard and production capacity.

The Bank adjusted credit authorization limits. The consignment loan business was included in the general

risk management; credit line limit management was applied to group clients; the credit extension business for securities companies or their affiliated companies (including low risk services), the credit guaranteed by securities companies or their affiliated companies (including low risk services), and the various credit extension used for investing in securities were all treated as high-risk business and were submitted to the headquarters level for approval.

Credit risk management for project loan and mid-long term loans was strengthened and the rights to approve project financing was withdrawn from branches of the Bank.

Classification of small enterprises and small clients were unified, and classification for small clients at the non-experimental branches was cancelled, and a third batch of experimental branches were granted the credit extension limits authorization for small enterprises.

Credit Structure

In 2007, the Bank further strengthened the credit structure adjustment and optimized client structure. The detailed measures including:

Accelerating the pace to withdraw from high-risk clients whose business were adversely affected by the economic fluctuation and macroeconomic control;

Timely withdrawing from the clients whose business was under the risk of industry policy, environmental protection policy or approval policy of the government;

Strictly controlling the credit extension to the clients with government background and prohibiting the extension of any packaged loans;

Strictly controlling credit extension to enterprises, which imported raw materials and export products and supporting export enterprises prudently caution;

Strictly controlling credit extension to clients with substantial investments in stock market, especially the clients with high risk exposure in speculating in the stock market.

Risk Management System

The Bank actively enhanced industry credit approval and optimized credit extension approval procedure to improve the efficiency and quality of credit authorization.

A dedicated credit approval group was established for credit approval in five categories of industries, namely the heavy industry, light industry, communications and energy industry, real estate industry and innovation products and financial industry relating to 30 subcategories, which replaced past credit approval model based on geographical districts, the new arrangement resulted in further improvement of efficiency and quality of credit approval.

Risk Management Technology

Corporate client credit risk rating system. On 30 June 2007, the corporate client credit risk rating system collaboratively developed by the Bank and Moody's Corporation was successfully implemented within the Bank. The main part of the system includes 21 scoring cards and one PD measuring pattern. The system was designed according to the requirement of the New Basel Capital Accord, which satisfied the requirements of CBRC for the first batch of enterprises to implement the New Basel Capital Accord in aspects of technological level, rating coverage and observing and testing time. The technological level of the system took leading position among the domestic peers. Currently, the corporate client rating system began to function throughout the Bank in client selection, product design, single transaction decision-making, credit approval authorization, and product pricing and performance evaluation. Besides, the Bank launched cooperation project with BBVA in implementing the New Basel Capital Accord, with the aim to become one of the first domestic commercial banks to implement the New Basel Capital Accord.

Credit management system. The Bank expedited the full application of the credit management system. Such system solved three major problems: First, the sharing of corporate credit granting information; second, the control of corporate credit granting procedure; third, the efficiency of corporate credit granting operation. In addition, the system provided a basic platform for a series of management systems that already functioned or still in development, including portfolio management, assets and liability management, fund transfer pricing and internal rating, indicating a new stage for the risk management technology of the Bank.

Risk Management for Small Enterprises Loan

The Bank strengthened the risk management of loan extension to small enterprises by screening the regions and client base, as well as applying stricter requirement for providing securities, frequent post credit extension inspections, optimizing the exit mechanism, etc.

Focusing on important areas, including Yangtze River Delta, Pearl River Delta, and Bohai Rim Three Regions as major geographical targets for credit extension, for these areas have more economic vitality, more active business activities, higher credibility of the clients, and better risk management ability of our branches in these areas.

Raising thresholds for our clients, we gave preferential treatment to small enterprises with sound growth potential, including enterprises with strong cash flow, enterprises that have business cooperation with leading companies and enterprises with core-technology advantage and had steady development.

Strengthing the provision of securities, including mortgages, pledges or guarantees to secure the payment of loans. Emphasis was made on the cooperation with guarantee companies and the adoption of collateral guarantee by enterprises to control credit risk.

Increasing the frequency of post credit inspection, the Bank would apply early-warning mechanism to the borrowers who were likely to default with an aim to promptly eliminate risk.

Strengthening the dynamic management of customers, enhancing evaluation of small-enterprise customers' comprehensive profit and risks, constantly improving the small-enterprise customer structure by implementing customer exit mechanism.

Mortgage Loan Risk Management

Given the complicated situation of the real estate market, in 2007, the Bank adjusted credit policy in real estate for three consecutive times, which led to the establishment of a sophisticated real estate credit policy system and notable improvement in the quality of real estate credit assets. Detailed measures are as follows:

Strictly enforcing the state policies on real estate, supporting real estate projects which were in compliance with laws and regulation.

Strictly following the threshold criteria for providing credit to real estate developers, adhering to the credit issuing threshold policy of "premium developers, quality properties," issuing credit to those developers with rich industry experience or with experienced shareholders, with steady operation, in compliance with the law, with low liability ratio, sound credit, and supporting those commercial residential projects with sound sales prospects.

Exercising caution in issuing credit to those developers with vast land reserve, large-scale projects under construction, and large house inventory, strictly avoiding the capital chain breaking risk of these developers, strictly controlling land reserve loans.

Strengthening the management of mortgage loans, avoiding fake mortgage, tightening the criteria issuing for personal loan, increasing down payment and interest rate for those who buy more than one property, paying attention to the borrower's credit record and the primary repayment source, putting special emphasis on preventing fake mortgage.

Risk Management for Personal Loan

The Bank kept on perfecting the retail bank risk management system, improving its authorization management and specific authorization personnel policy.

The Bank has established personal loan centers in 25 tier-one branches and 17 tier-two branches to strength the ability of centralized risk control.

The Bank strengthened its ability of controlling and monitoring retail banking risks, and applied post credit inspection to important clients to detect the risk and established the risk reporting system.

The Bank monitored the newly extended personal loans on quarterly basis, and carried out audit, inspection and control over the quality of retail assets, five-category clarification, recovery of non-performing loans, critical recovery items on monthly basis, and made monthly enquiry on branches with new amount of non-performing loans exceeding RMB3 million.

The Bank initiated a retail bank assessment program under the New Basel Capital Accord, and established a scientific personal credit rating system.

Credit Card Risk Management

The Bank established vertical control system for credit card risk management by risk management committee of headquarters of the Bank, the credit policy need to be approved or filed with the headquarters of the Bank. A credit department was set up in the Credit Card Center with specific business sections divided according to pre credit extension, credit extension and post credit extension to be responsible for daily risk management decision-making and implementation of specific policies.

The risk management institutions at all level and individuals managing credit card approval, credit limit adjustment and authorization were hierarchically authorized to control risks based on the principle of "hierarchical management and credit authorization limits control" so as to effectively control internal risks.

Tightening the client selection criteria to guide the accurate positioning in field sales so as to secure excellent clients.

An overall risk management was conducted by combining the headquarters' external audit on the Credit Card Center, Credit Card Center's external audit on business departments and business departments' internal audit.

The Bank abided by the requirements of the New Basel Capital Accord to develop the risk quantitative technology including all kinds of scorecards which will be implemented in 2008.

Treasury Business Risk Management

The daily risk management decision-making for the treasury operations was responsible by the Treasury and Capital Market Department in our headquarters. According to the principle of checks and balances, the Risk Management Department and the Budget and Finance Department of the headquarters are also involved in the important risk management decision-making process.

Despite the domestic macro-economic control policy and the outbreak of U.S sub-prime mortgage loan Crisis (**Sub-prime Crisis**), the Bank conducted securities investment and commission business on a sound and prudent basis. Regarding bonds investment and commission business denominated in Renminbi, the Bank took "high quality industries and high quality enterprises" with high credit rating as major investment objective and target clients. Regarding the foreign currency security investment, the Bank adjusted its credit investment and optimized the portfolio of foreign currency assets, to lower the negative influence on the security of the Bank's assets.

The Bank strictly complied with the annual credit line policy formulated by Credit Risk Management Committee of the headquarters, and has constructed an investment consultation team consisting of the dealers, strategy analysts and risk managers to select trading and investment objectives, the Bank have combined a top-down and bottom-up mechanism for decision-making process. Meanwhile, the Bank applied post-evaluation system and carried out periodic assessment and improvement on the operative efficiency of investment decision-making.

During the U.S. Sub-prime Crisis, the Bank further enhanced the monitoring and reporting mechanism for market condition and also established an emergency mechanism, which promoted the efficiency of operation before and during the crisis.

Management of Non-performing Loans

The Bank has a well-established and vertical management system and a professional team with rich experience in recovering non-performing loans. Under the guidance of the "five-fixed" principle, namely the fixed plan, fixed project, fixed personnel, fixed schedule and fixed reward, with a major objective of maximizing the cash recovery the Bank realized from the debtor's available assets, collecting on guarantees and conducting litigation or arbitration proceedings. The recovery procedures were usually carried out by two staff and records were also established. The Bank wrote off a non-performing loan once it had exhausted all means of collection and recovery.

Market Risk Management

The Bank's market risk comes from the fluctuation of market price, and can be attributed to the fluctuations of interest rate, exchange rate, stock price and commodity price and other observable market variables. In managing the market risk, the Bank applied a strict authorized quota management system to control the loss of potential market risk within the acceptable levels so as to ensure the stability of earnings.

The Risk Management Committee under the Board is in charge of reviewing and revising the market risk policy of the Bank. The Market Risk Committee of the Bank was responsible for formulating the market risk management policies and procedures, approving new products and the limit of risks. The Budget and Finance Department of the headquarters is responsible for the daily work of market risk management. The Treasury and Capital Market Department of the Bank was responsible for executing the market risk management policies and procedures to ensure that the risk level was under the level set by the Market Risk Committee.

Interest Rate Risk Management

The interest rate risk of the Bank comes from the mismatches between the re-pricing periods of the assets and liabilities of the Bank, as a result of which, interest income or the value of the assets is likely to be affected by the current interest rate fluctuation.

The Bank evaluated the interest rate risk of its balance sheet through gap analysis, and then correspondingly adjusted the frequency of re-pricing, and sets the maturity levels of corporate deposits, so as to reduce the mismatch of maturity in re-pricing. As currently the RMB-dominated interest rate is continuously increased, the Bank seeks to reduce the interest rate risk by gradually narrowing the gap of pricing.

For the treasury operations business, the Bank, based on duration analysis, adopts the interest rate sensitivity, pressure testing and scenario simulation and other means for measuring and supervising the interest rate risk, and set up risk-based limits for rate sensitivity, duration and exposure. The Bank supervised and managed the execution of the limits. The treasury operations of the Bank entered into derivatives contracts, such as swaps, forwards and options, etc. to hedge the interest rate risk exposure of the balance sheet and investment mix of the Bank. The Bank, by relying on the advanced risk management system and independent internal control platform, was able to effectively monitor and report the market risk.

In 2007, the Bank applied funds transfer pricing (FTP) system to local and foreign currency liabilities, and included some proportion of FTP profit into the assessment of branches. Through the implementation of FTP, the Bank effectively directed the branches to price funds appropriately, and managed the interest rate risks of all departments, so as to establish a solid fundament for the precise future checking of products and centralized management of interest rate risks of the whole bank by the headquarters.

Analysis on interest rate gap: *(Unit: in millions of RMB)*

	Interest deducted	**Within 3 months**	**3 months to 1 year**	**1 to 5 years**	**More than five years**
Total asset	22,198	677,732	238,511	53,165	19,580
Total liability	23,050	792,824	84,997	15,536	10,688
Interest rate gap	(852)	(115,092)	153,514	37,629	8,892

Exchange Rate Risk Management

The exchange rate risk mainly comes from the mismatches in the currency denomination of on- and off-balance sheet assets and liabilities and the mismatch of foreign currency position resulting from foreign exchange trading.

The foreign exchange exposure of the Bank is placed under the concentrated management by the Treasury and Capital Market Department of the headquarters. The foreign exchange position of all branches must have back-on-back trades with the headquarters. The Treasury and Capital Market Department of the Bank, through trading on the market or derivatives trading, controls exchange rate risk exposure within the limit set by the Market Risk Committee. Considering the big pressure of RMB revaluation, since the end of 2004, the Bank took the following measures for strengthening the exchange rate risk management:

- Setting up the trading system at the headquarters and branches so that the headquarters can gather the positions of the whole Bank and impose the centralized management;
- Setting up the high-efficient price transmission mechanism from the headquarters to branches and from branches to sub-branches for exercising effective management on the exchange rate;
- The Bank controlled the foreign exchange exposure of the whole Bank within the limit set by Market Risk Committee and monitored the foreign exchange exposure on real time.

Analysis on Foreign Exchange Exposure *(Unit: in millions of RMB)*

	US$	**HK$**	**Others**	**Total**
Net positions in balance sheet	23,896	(1,235)	668	23,329
Net positions off balance sheet	(17,052)	1,247	(905)	(16,710)
Total	6,844	12	(237)	6,619

As the transaction accounts management, the Bank mainly applied the stop-loss limit, the total volume control and the periodical valuation, etc. to effectively lower the possibility of loss caused by the uncertainties of the market in terms of market risk management.

Management of Liquidity Risks

The liquidity risks of the Bank are mainly caused by mismatched structure of assets and liabilities, clients' early or centralized drawing of money, providing funds for loans, trading and investment and management of current assets by cashier.

The liquidity management of the Bank adopts the pattern of centralized management, which refers to unified management and multiple-level responsibility distribution. Cashier of the headquarters works as the director of liquidity risk management for the whole bank, providing the branches of the Bank with the demand of working capital through market it administrates, filling up the gap of capital and using profit capital through monetary market, open market operation and inter-bank discount or counter purchase. Department of Cashiers in branches of the Bank is led by the headquarters, and is responsible for liquidity management of branch institutions it administrates in authorized scope.

The Bank formulates indicators for liquidity management every year. The indicators include, but are not limited to liquidity ratio, deposits-loans ratio, and cash reserve ratio. The Bank also dynamically adjusted the current assets portfolio according to the changes of market environment. Meanwhile, The Bank periodically conducted pressure test, scenario analysis and analysis report and also identified, quantified and monitored liquidity risks by using duration gap analysis.

Owing to the effect of the central bank's tightened monetary policy and heated stock and fund market, the fluctuation and uncertainty of current capital volume keep growing during the reporting period. The RMB liquidity management of the Bank has withstood the test of market, and obtained relatively good management profit with the precondition of ensuring the liquidity safety. On the aspect of portfolio management, the Bank managed to keep the diversification of current assets, including some short-term assets with higher liquidity such as saving deposit in the central bank and bills issued by the central bank, short-term government bond, financial bonds, inter-bank lending/borrowing and repurchase, and maintain appropriate proportion of discount bills assets. At the same time, the Bank properly arranged the structure of capital duration, and shortened the security investment portfolio duration. On the aspect of liabilities, the Bank strengthened the clients marketing, kept the stability of liabilities, and maintains various channels to liabilities, such as opening market, monetary market, and notes market.

Internal Control and Operational Risk Management

Internal Control

In order to guarantee the safety and completeness of the assets and accuracy and reliability of the financial data, as well as to effectively prevent various risks, the Bank had kept on completing the system, mechanism and procedure of internal control based on the principle of "internal control first" according to the requirements of relevant laws and regulations as well as the corporate articles of association. Meanwhile it constructed the three prevention lines of internal control consisting of business, functional departments and internal audit from the three aspects of mechanism, culture and technology. Thus a reasonable, complete and strict internal control system has been gradually established.

- Improving the corporate structure and internal control management framework composed by the internal administrators and decision-makers, construction and executive officers, and the monitoring and assessment officers. The Board of Directors is the decision-making organ for internal control. It discusses periodically on the effectiveness of internal control with the managements, checks the internal control assessment report prepared by the management, audit departments and supervision departments, and supervises and urges the management to implement remedial measures.

- Completely arranging and optimizing the regulations and laws, including the formulation of business practice guidance and the establishment of the standardized operation procedures, and formulating the laws and regulations covering all the major business procedures, financial management, audit accounting and disclosure of information. The Bank took measures to fix the responsibilities in respect of internal control of every department and every post and improve the checks and balance systems for different posts, such as separation of contradicting posts, compulsory furlough, rotation of posts, service term economic responsibility audit.

- Establishing an internal capital assessing procedures and capital goal corresponding with the characteristics, scale, risk and business complexity, among which, credit risk was measured and reported according to the standard methods set by China Banking Regulatory Commission; the status of market risks and currency position should be monitored and reported according to standard methods every quarter; Management on operational risk facilitated the work in all aspects.

  Fully using the information system for clients that shall be specially focused on and credit management system and credit system of PBOC and enhancing special supervision and control over industries, enterprises, products and regions and enhancing the recognition of the exposure of large-volume capital risk and centralization of risks, so that, the centralization of loans continuously decreased.

  Designing corporation client rating system according to the requirement of New Basel Capital Accord. The rating system has connected the credit rating of a client with the probability of default, so as to cover all the corporate clients except financial institutions. The corporate client rating system has reached the requirements issued by China Banking Regulatory Commission for the first batch of banks implementing New Basel Capital Accord in terms of technical level, coverage of rating, and duration of observation and testing.

  Strengthening the management of market risks and periodically carrying out pressure test on the interest rate risks of treasury products and bank accounts, and estimating the effect of market parameters on interest margin income and market capital of assets.

- Strengthening the examination and monitoring of internal control and constructing an independent and objective internal audit system and enriching the strength of internal audit. The audit staff accounts for about 1.2% of the total number of employees of the Bank. The Bank increased the frequency and coverage of internal examination and established a database for the problems found during examinations and strengthened the implement of remedial measures, so that the repeated occurrence of non-compliance has been effectively avoided and ensure the effective implement of internal control system.

- Improving the responsibility investigation system and completing the procedures of investigating responsibility and enhancing the investigation and punishment on violators who breach the laws and regulations and periodically circulating notices of criticism and warns to the whole bank. A system that breach of laws must be corrected and mistake must be punished has been formulated.

Internal Audit

The internal auditor of the Bank is responsible for the supervision and evaluation of the risk management, the adequacy and effectiveness of the internal control adequacy of the whole bank. The internal auditors of the Bank also report to the Board of Directors, the Board of Supervisor, and the senior management. In 2007, the Bank strengthened the independence, authority and effectiveness of internal audit by improving management methods, operation procedures and technological measures.

Completing the audit management system. The Bank adopted the collective management system of double management of the auditing staff by the headquarters and branches and auditing tasks solely assigned by the headquarters with the branches' tasks as supplement. The auditing staff of the whole bank mainly focused on the headquarters' auditing projects to improve the independence and objectivity of the auditing work. The headquarters established the inspection plan and criteria, produced audit report and urged corrections collectively to improve the authority and effectiveness of the auditing work.

Strengthening the on-site inspection. In 2007, directed by risks and aiming at "preventing cases and operational risks" and enhancing legal operation and operational compliance, the Bank launched big scale on-site audit of accounting, finance and credit with an inspection coverage of 100% for the outlets of the whole bank mainly focusing on conducting no-notice inspections on business field with risk potential and special inspections on new business and products. The Bank established systematized and standardized correction mechanism and responsibility system focusing on system and procedure to emphasize on the correction of discovered problems in the inspection.

Innovating the auditing method and improving the auditing procedures. The on-site audit information system was fully promoted and applied to enable the information concentration, procedure concentration and standardization of the on-site audit and improve the quality and efficiency of the audit. Investment in science and technology was increased to develop off-spot audit system and build the platform for off-spot audit and risk supervision.

Operational Risk

In 2007, the Bank developed the new bank-enterprise electronic account system, established management methods of the new bank-enterprise electronic reconciliation system and implemented throughout the Bank to improve the timeliness, completeness and effectiveness of the Bank-enterprise reconciliation. The accounting for asset business was able to be conducted

in branches of the Bank; the concentration of accounting work was fully launched. While endeavoring to build operational risk prevention system and mechanism, the Bank continued to conduct general inspection and special inspection on accounting counter business to strengthen the risk prevention basis. The Bank also actively put the Guidelines on the Operational Risk Management of Commercial Banks issued by China Banking Regulatory Commission into practice to set up detailed operational rules endeavoring to build an operational risk management system fitting for the actual situation of the Bank so as to strictly prevent the operational risks.

Anti-Money Laundering

According to the Anti-money Laundering Act and relevant regulations, the Bank established and completed the anti-money laundering internal control system. The measures taken included the following: executing the reporting regulation of big amount and suspicious transactions; reporting the big amount and suspicious payment transactions via the information system and paying close attention to the fund flow and usage of the suspicious payment transactions; establishing and implementing the client identity recognition system and the system of storing the client identity materials, transaction records and reported information; strengthening the staff training on anti-money laundering to enhance the staff's anti-money laundering awareness and capability.

Capital Management

The capital management of the Bank mainly includes: (1) management of capital adequacy ratio; (2) management of economic capital; (3) capital financing management.

- Management of Capital Adequacy Ratio. The Bank calculated and disclosed our capital adequacy ratio strictly according to regulatory requirements and monitored the market risk position and reported to CBRC quarterly.

- Management of Economic Capital. From 2006 on, the Bank established and implemented capital management system step by step, imported the indexes of "economic profit" and "risk capital return rate", implement measures of "payable use" of capital, assessed the profit level adjusted by risk of branches and increased the weight of economic profit in assessment year by year. The Bank urges branches to put emphasis on business structure and profit structure so as to change the traditional operation model by associating the capital management with the rating of performance of the branches.

- Capital Financing Management. The Bank ensured its capital adequacy ratio to meet the requirement of regulatory institution by carrying out appropriate financing management, actively expanding capital recruitment channel and optimizing capital structure. At the same time, the Bank reduced the impact of Renminbi appreciation on the capital of the Bank by formulating reasonable capital operation plan and adopting effective measures.

Outlook

Domestic and International Macro-economic Trends

The world's economy faces more uncertainties. Under the unremitting impact of the US sub-prime crisis, many of the internationally known financial institutions have suffered great losses, resulting in significant damage to the orderly operation of the international financial sector. Influenced by the slack consumption in the US market, the economic development in America, EU and Japan are likely to slow down. Meanwhile, due to the surge of prices for agricultural commodities, oil and iron ore, the world is still under pressure of inflation.

Despite the fluctuation in international economic environment, China has managed to maintain its long-term momentum in domestic investment and consumption. China's export is still growing, and domestic economy is generally in sound situation. As the macro-control policies begin to take effect, China's economic growth is expected to be steady and somewhat slower; CPI is expected to drop, and the quality of economic operation will be improved, creating a favorable environment for the banking industry.

Meanwhile, the banks will face tightened monetary policy. China's central bank, the PBOC has raised the deposit reserve ratio to a historical high, and tightened control on the credit scale so as to restrain the banks' fund supply. Meanwhile, mortgage polices are adjusted on the second-hand property trading and the second-property purchase, so as to regulate the real estate market. All these changes will pose new challenges to the management of the banking industry.

Changes in the Competition Environment

Competition is intensifying in the domestic banking sector. Major state-owned banks have become listed companies after the reorganization, which have improved their capital strength and competitive power, and enabled them to accelerate their pace for integration and globalization. Small and medium-sized joint-stock commercial banks have aggressively expanded their geographic presence and business size. Foreign banks, on their established presence in China, have begun to conduct full-dimensional competitions with domestic players. City commercial banks have been accelerating the process of listing and trans-regional operation. Non-bank financial institutions such as auto-finance players have extended their business to the traditional banking sector.

The development of capital market creates an adverse effect in traditional loan business. The stock market, the corporate bond market and the short-term financing securities market continue to expand, which have resulted in the companies' less reliance on bank loans; on the other hand, given more diversified channels of investment, the banks find it harder to attract deposit from households.

New opportunities driven by Market Demands

Despite intensified competition within the banking sector and an increased pressure on traditional deposit and lending business, banks are expected to face more financial service demands from corporate and private clients. Demands from big and quality clients are quickly expanding in areas of Internet banking, cash management, corporate wealth management, and investment banking service; and comprehensive financial solutions are required. Demands from private clients have become diversified, covering various categories including funds, insurance, bonds, as well as wealth management products. The business segments of fund custody and corporate pension also experienced a rapid growth. All these changes have provided business opportunities for the Bank. The Bank will make full efforts to improve its service in investment banking, asset custody, financing consultancy, wealth management, private banking, and debit/credit carding, so as to enhance its capability and profitability in non-interest business.

The Bank's Development Plan 2008

Operation Plan:

The Renminbi and foreign denominated deposit balance amounts to about RMB905 billion and the Renminbi and foreign denominated loan balance amounts to about RMB675 billion.

Development Plan:

Aiming to achieve the overall objectives of maximizing the value of shareholders and achieving sustainable development, the Bank has formulated its new-year development concept, focusing on profit growth and adjustment of profit portfolio. First, the Bank will strengthen its efforts on research and analysis of macroeconomic and financial situation, on control of its credit supply volume according to relevant fiscal policies to determine the timing and frequency of credit extension. Second, the Bank will promote its cooperation with strategic investors, trying to make breakthrough in private banking and auto financing businesses, and to achieve better results through the cooperation in risk management and capital transactions. Third, the Bank will stick to its unique development model by optimizing the management of corporate banking, consolidating and strengthening its competitive advantages in the corporate banking market; the Bank will improve its retail banking system, so as to enhance its profitability and influencing power; the Bank will also accelerate its international expansion, and further strengthen its capital market business. Fourth, the Bank will make efforts to further increase its non-interest income. Greater efforts will be made in the development and distribution of non-interest products, and an evaluation system will be adopted to incentivize the branches of the Bank to expand their non-interest business. Fifth, the Bank will further enhance its risk management by paying more attention to the adjustment of its client composition and industry structure. Priority will be given to policy-supported industries and quality enterprises. Efficiency of credit authorization will be improved by the adoption of "flexible authorization". Sixth, the Bank will strengthen its financial and accounting management, and try to optimize its resource allocation. The profit evaluation system will be fully implemented, and the FTP examination will be introduced, so as to establish an assessment system that covers efficiency, quality and scale, and to facilitate the development of the different Business Lines in the Bank's branches.

Public Welfare Establishments

The Bank, while providing innovated financial services to satisfy increasing social demand, actively paid attention to people's livelihood and pro bono career, taking the participation of all sorts of social assistance and cherity as important parts of conducting its corporate social responsibility. The Bank always participated in projects that promote harmonions society building, including poverty alleviation, education and environmental protection. The Bank also paid attention to the difficulties of impoverish areas and poor people, advocated the participation by its staff in social charitable career to show their compassion. Thus the Bank shouldered broad social responsibilities.

Donation to the impoverished

The Bank donated RMB1.5 million in total to people living in impoverished areas through "CITIC Group Designated poverty Relief" Project. The Bank offered effective support improving the production and living conditions of the villages in poverty-ridden counties and promoting agricultural production modernization. Meanwhile, the outlets of the Bank donated over RMB1.5 million to poverty alleviation projects.

Donation to Charities

The Bank donated RMB100,000 to the China Charity big-scale activity Series "Love in China" via China Charity Federation, and donated more than RMB600,000 to the Municipal Charity Federation in Zhejiang, Shandong and Xinjiang Provinces.

Campaigns in promoting education

The Bank donated RMB2 million to Tsinghua University, and its branches donated a total of RMB200 thousand as education fund to impoverished areas in China, besides, the branches of the Bank have carried out various activities to help the poor with their education, such activities including building primary schools in impoverished areas, financing teaching facilities and equipments, helping students with tuitions to complete their education, etc.

Donation to Solar Energy Power Project of Sichuan Wenchuan County for Poverty Alleviation

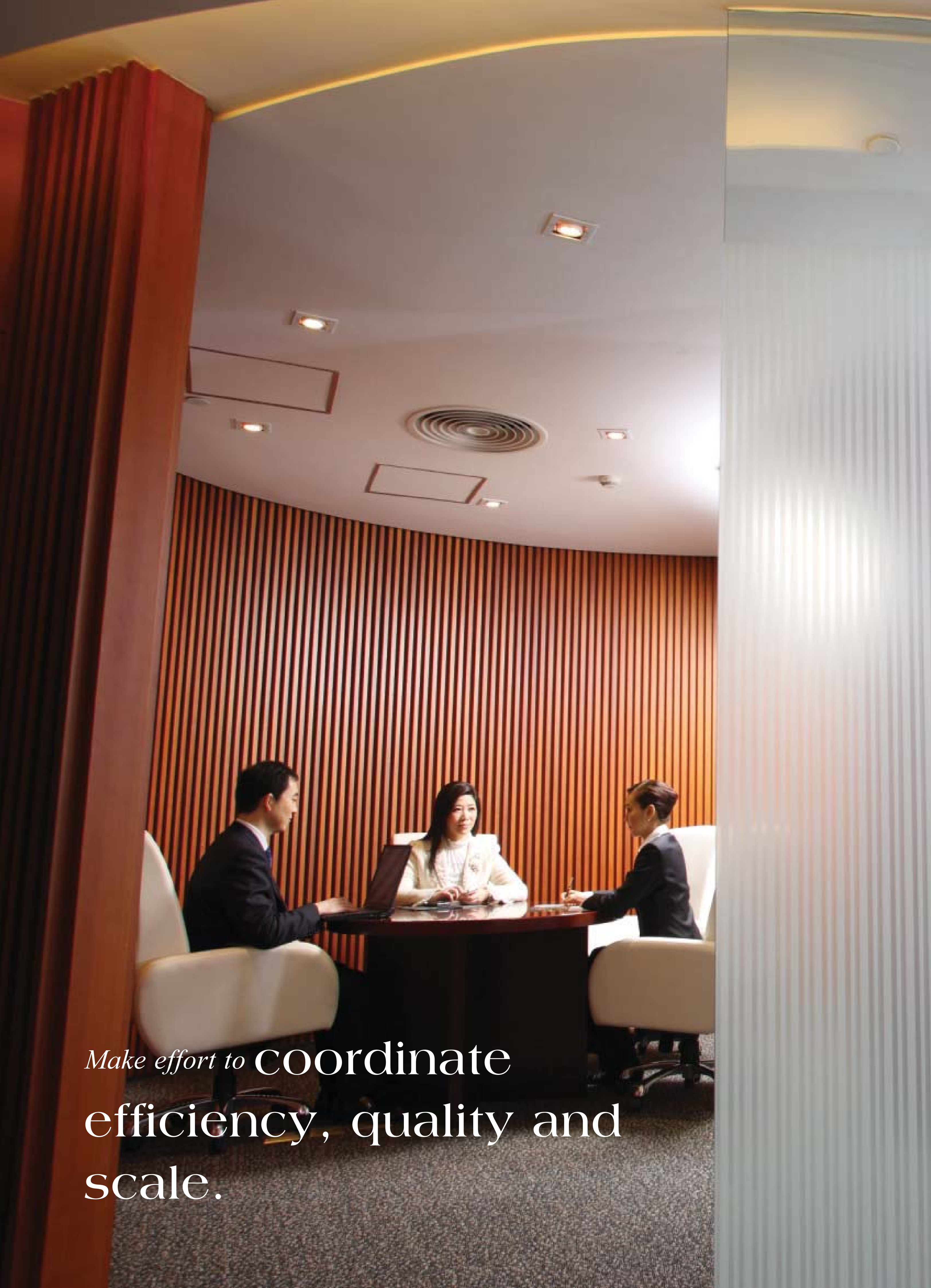
The Bank donated RMB100,000 to the "Aba State Solar Energy Power Project for Poverty Alleviation" organized by the Aba State Poverty Alleviation and Development Association to help Wenchuan County according to the requirement of the provincial government. For years, the Bank had donated to the area RMB600 thousand and RMB400 thousand in kind, implementing 20 poverty alleviation projects with 8,200 people benefited.

Participating in the Campaign of "To carry on Culture and Love"

The Bank participated in the campaign "To carry on the Culture and Love" activity initiated by *Shanghai Morning Post*, and donated on the "International Day of Disabled Persons" the 2008 subscription of *Shanghai Morning Post* to 240 charitable schools with participants of the Special Olympic Games and physically-challenged students.

Campaigns in promoting financial service sports events

During 2007, the Bank has provided sponsorships to many sports events. In June 2007, the Bank made naming right sponsorship to the CITIC Bank's teenagers' golf competition; in September 2007, the bank has made naming right sponsorship to the Chinese Tennis Open competition held in Beijing.



Make effort to coordinate efficiency, quality and scale.

Changes in Share Capital and Shareholding of the Substantial Shareholders

Changes in shares

	Before the change		Increase/decrease (+, -)					After the change	
	Number (10,000 shares)	Percentage	New shares issued	Bonus shares	Shares converted from reserves	Others	Subtotal	Number (10,000 shares)	Percentage
I. Shares subject to restrictions on sale:	3,111,311.14	100%	294,196.57			-119,448.17	174,708.4	3,286,019.54	84.18%
1. Shares held by the state	0.00							0.00	
2. Shares held by state-owned entities	2,639,420.22	84.83%	72,201.40			-206,459.33	-134,257.93	2,505,162.29	64.18%
3. Shares held by other domestic investors Including:	0.00		63,305.17			-63,305.17	0.00		
Shares held by domestic non-state-owned legal entities	0.00		63,305.17			-63,305.17	0.00		
Shares held by domestic natural persons	0.00							0.00	
4. Shares held by foreign investors Including:	471,890.92	15.17%	158,690.0			150,276.33	308,966.33	780,857.25	20.00%
Shares held by foreign legal entities	471,890.92	15.17%	158,690.0			150,276.33	308,966.33	780,857.25	20.00%
Shares held by foreign natural persons	0.00							0.00	
II. Shares not subject to restrictions on sale:	0.00		497,826.7			119,488.17	617,314.87	617,314.87	15.82%
1. RMB-dominated ordinary shares	0.00		115.164.3			63,305.17	178,469.47	178,469.47	4.57%
2. Domestically-listed foreign shares	0.00							0.00	
3. Overseas listed foreign shares	0.00		382,662.4			56,183	438,845.4	438,845.4	11.25%
4. Others	0.00							0.00	
III. Total	3,111,311.14	100%						3,903,334.41	100%

Notes: (1) Upon the in-principle consent of the State Council, and the approval of the Reply of the Ministry of Finance on the Plan for the Administration of State-owned Shares of CITIC Bank (Cai Jin [2006] No. 121) and the Reply of the China Banking Regulatory Commission on Issues Concerning the Reconstruction of CITIC Bank into a Joint-stock Corporate (Yin Jian Fu [2006] No. 455), CITIC Group and CITIC International Financial Holdings Limited ("CIFH"), as promoters, reconstructed the Bank into China CITIC Bank Corporation Limited. The joint-stock corporate was established on 31 December 2006, with total shares of 31,113,111,400, including 26,394,202,200 shares held by CITIC Group, representing 84.83% of the total shares of the Bank, and 4,718,909,200 shares held by CIFH, representing 15.17% of the total shares of the Bank. CIFH also entered into a top-up agreement with the Bank and CITIC Group on 22 November 2006, under which CIFH agreed to acquire further H shares of the Bank.

(2) CITIC Group transferred its 1,502,763,281 shares of the Bank to foreign strategic investor BBVA, on 1 March 2007. After the completion of this transfer, shares of the Bank held by CITIC Group, CIFH and BBVA were 24,891,438,919, 4,718,909,200 and 1,502,763,281 respectively. This represents 80.00%, 15.17% and 4.83%, respectively of issued shares before the listing of the Bank.

(3) The Bank was listed concurrently on the Shanghai Stock Exchange and the Hong Kong Stock Exchange on 27 April 2007. The over-allotment option of H shares was fully exercised on 10 May 2007. The Bank issued 2,301,932,654 A shares and 5,618,300,000 H shares (including the state-owned shares that CITIC Group transferred to the National Council for Social Security Fund and the anti-dilution right and the top-up right exercised respectively by BBVA and CIFH). After completion of the initial public offering, the Bank had 39,033,344,054 shares in total, comprising 26,631,541,573 A shares and 12,401,802,481 H shares.

(4) The Bank allotted 517,238,000 of A shares to Strategic Investors at the time of the listing in April 2007. At the end of reporting period, these allotted A shares were still restricted from trading in stock market due to 12-month lock-up period restriction. However, since the Bank could not identify, one by one, the identities of these shareholders holding the A shares, we were only informed from public available sources that these 20 strategic investors were all state-owned enterprises. Therefore, these allotted A shares have been temporarily listed into the column titled "Shares subject to restrictions on sale-Shares held by state-owned entities" in the above table.

(5) In April 2007, the Bank allotted 633,051,654 A shares to off-line subscribers at the time of the public listing. At the end of the reporting period, these allotted A shares were no longer restrained by the three months lock-up period and could be traded on the stock market.

(6) The Bank allotted 273,036,000 H shares to five cornerstone investors at the time of the listing in April 2007. At the end of this reporting period, these allotted H shares were still restricted from trading in the stock market due to the 12-month lock-up period restriction. Among which, the shares held by PRC National Council for Social Security Fund, PICC, China Life Insurance (Group), and China Life Insurance Co., Ltd are State-owned shares.

Changes in shares subject to restrictions on sale

Name of shareholders	Number of shares subject to restrictions on sale at the beginning of the year (after listing)	Number of shares relieved from restriction in this year	Increase of shares subject to restrictions on sale in this year	Number of shares subject to restrictions on sale at the end of the year	Reason of restriction	Date of relief
CITIC Group	24,329,608,919	—	—	24,329,608,919	Note(1)	2010.4.28
CIFH	5,855,002,200	—	—	5,855,002,200	Note(2)	2008.4.28
BBVA	1,885,311,281	—	—	1,885,311,281	Note(3)	2008.4.28
Mizuho Corporate Bank	68,259,000	—	—	68,259,000	Note(4)	2008.4.28
The National Council for Social Security Fund	68,259,000	—	—	68,259,000	Note(4)	2008.4.28
PICC Property and Casualty Company Limited	68,259,000	—	—	68,259,000	Note(4)	2008.4.28
China Life Insurance (Group) Company	34,129,000	—	—	34,129,000	Note(4)	2008.4.28
China Life Insurance Co., Ltd	34,129,000	—	—	34,129,000	Note(4)	2008.4.28
China State Shipbuilding Corporation	29,310,000	—	—	29,310,000	Note(5)	2008.4.28
Baosteel Group Co., Ltd	25,862,000	—	—	25,862,000	Note(5)	2008.4.28
Other strategic investors of A shares	462,066,000	—	—	462,066,000	Note(5)	2008.4.28
Off-line subscribers of strategic investors of A shares	633,051,654	633,051,654	—	0	Note(6)	2007.7.28
Total	33,493,247,054	633,051,654		32,860,195,400		

Notes: (1) CITIC Group undertakes that within 36 months from the listing date of the Bank's A shares on the Shanghai Stock Exchange, it will not transfer or entrust others to manage the shares directly or indirectly held by it in CITIC Bank, nor will it offer A shares to CITIC Bank for purchase. If CITIC Group obtains the consent of CSRC or other securities regulatory agency authorized by the State Council to convert its A shares in the Bank into H shares, the converted H shares will not be subject to the 36-month locked-up period.

(2) CIFH undertakes that within a year from the listing date of the Bank, it will not transfer or entrust others to manage the shares directly or indirectly held by it in CITIC Bank, nor will it offer shares to CITIC Bank for purchase.

(3) BBVA undertakes not to transfer the shares it purchased in the initial closings (1 March 2007), and any shares it purchased based on call options prior to the third anniversary of date of the purchase of the related shares. The additional shares BBVA holds according to Anti-dilution Provision cannot be transferred before the first anniversary of the listing date.

(4) The four cornerstone investors of H shares undertakes not to sell any H shares purchased pursuant to the placing agreement directly or indirectly within the lock-up period or 12 months after the listing date unless they obtain a prior written consent from the Bank and joint Global Coordinators.

(5) The lock-up period of 20 A shares strategic investors is 12 months following the listing date.

(6) The lock-up period of off-line subscribers of strategic investors of A shares is three months following the listing date.

Securities Issuing and Listing

Information on share issuing and listing

On 13 April 2006, CITIC Group and CIFH entered into an agreement, in which both parties agreed that 31 December 2005 was considered as price-fixing reference date for the transfer of shares. CITIC Group transferred 19.9% equity interests in the Bank to CIFH. The transfer price was based on the audited value of net assets of the Bank as of 31 December 2005 according to the International Accounting Standards, with a premium of 15.3%, and was not lower than the assets appraisal result as approved by the Ministry of Finance. The total consideration price was about HK$5.3008 billion, equivalent of HK$1.12 per share. As consideration, CIFH issued new shares to CITIC Group. On 16 November 2006, CITIC Group and CIFH entered into a Promoters' Agreement, pursuant to which both parties agreed to establish China CITIC Bank Corporation Limited as promoters.

On 31 December 2006, CITIC Group and CIFH established China CITIC Bank Corporation Limited as promoters by the reorganization. Upon the establishment, the registered capital of the Bank was RMB311,131.114 billion. CITIC Group held 26,394,292,200 thousand shares of the Bank, accounting for 84.83% of the total shares of the Bank; CIFH held 4,718,909,200 thousand shares of the Bank, accounting for 15.17% of the total shares of the Bank.

In 2007, the controlling shareholder of the Bank, CITIC Group entered into a Share Purchase and Option Agreement with the overseas strategic investor, BBVA pursuant to which, BBVA purchased 1,502,763,281 shares of the Bank held by CITIC Group by 1 March 2007, accounting for 4.83% of the total issued shares of the Bank prior to its A shares issuing and H shares issuing.

On 27 April 2007, the Bank successfully concurrently listed its shares at the Shanghai Stock Exchange and the Hong Kong Stock Exchange. During this public offering, 2,301,932,654 A shares and 5,618,300,000 H shares were issued (including the state-owned shares transferred by CITIC Group to National Council for Social Security Fund, and the anti-dilution right and top up rights exercised by BBVA and CIFH, respectively). After the public offering, the Bank has a total issued shares of 39,033,344,054 shares, comprising 26,631,541,573 A shares and 12,401,802,481 H shares.

Subordinated debts

In accordance with the approval by the PBOC and the CBRC, the Bank issued RMB6 billion of subordinated debts to institutional investors including insurance companies and investment companies in 2004; the Bank also issued another RMB6 billion of subordinated bonds to institutional investors such as commercial banks, insurance companies and policy banks through public bidding.

The subordinated debts issued in 2004 include four batches that will mature during June 2010 and September 2010, among which the interest rate of three batches will be calculated by plusing the interest spreads of 2.72% with one-year term deposit interest rate of PBOC, and the rest one will be calculated by plusing the interest spreads of 2.6% with one-year term deposit interest rate of PBOC.

The subordinated bonds issued in 2006 include two types. One type is the subordinated bonds with the nominal value of RMB2 billion, which will reach its maturity in June 2021 with the interest rate of 4.12%. The Bank has option to redeem on 22 June 2016. If the Bank does not exercise the redemption option in advance, then during five years since June 2016, the nominal annual rate will increase to 7.12%. The other type is the subordinated bonds with the face value of RMB4 billion, which will reach its maturity in June, 2016 with the rate of 3.75%. The Bank has an option to redeem on 22 June 2011. If the Bank does not exercise the redemption option in advance, then during five years since June 2011, the nominal annual interest rate will increase to 6.75%.

Internal employee shares

There are no internal employee shares issued by the Bank.

Information of shareholders

Total Number of Shareholders

By the end of the reporting period, total number of shareholders of the Bank was 625,984, including 579,115 A share holders and 46,869 H share holders. (The number of shares held by H share shareholders are based on the records of register of members of the Bank at the H-share share registrar.)

Shareholdings of the top 10 shareholders of the Bank

No.	Name of Shareholder	Nature of Shareholder	Type of Shares	Total number of shares held	Percentage of shareholding (%)	Increase and decrease of shares during the year (after listing)	Shares being pledged or frozen
1	CITIC Group	State-owned	A share	24,329,608,919	62.33%	0	0
2	CIFH	Foreign capital	H share	5,855,002,200	15.00%	0	0
3	Hong Kong Securities Clearing Company Nominees Limited	Foreign capital	H share	4,845,812,000	12.41%		N/A
4	BBVA	Foreign capital	H share	1,885,311,281	4.83%		0
5	Mizuho Corporate Bank	Foreign capital	H share	68,259,000	0.17%	0	N/A
6	National Council for Social Security Fund	State-owned	H share	68,259,000	0.17%	0	N/A
7	PICC Property and Casualty Co., Ltd	State-owned	H share	68,259,000	0.17%	0	N/A
8	China Life Insurance (Group) Company	State-owned	H share	34,129,000	0.09%	0	N/A
9	China Life Insurance Co., Ltd	State-owned	H share	34,129,000	0.09%	0	N/A
10	China State Shipbuilding Corporation	State-owned	A share	29,310,000	0.08%	0	N/A

As of 31 December 2007, CITIC Group held 55.17% shares in CIFH, and was its controlling shareholder; BBVA held 14.52% shares in CIFH. China Life Insurance Co., Ltd. is a subsidiary of China Life Insurance (Group) Company. Except for the above disclosure, the Bank is not aware of any other relations among the above shareholders.

Shareholding of the Top 10 non-restricted shareholders

No.	Name of Shareholder	Number of shares not subject to restrictions on sale	Type of shares
1	Hong Kong Securities Clearing Corporate (Nominees) Limited	4,845,812,000	H Share
2	Bank of Communications — Efunds 50 index securities investment funds	16,499,860	A Share
3	Shanghai Automotive Group Finance Co., Ltd.	10,954,916	A Share
4	China Marine Finance Co., Ltd.	10,954,916	A Share
5	Bank of China — Jiashi Shanghai-Shenzhen 300 Index Securities Investment Fund	9,688,697	A Share
6	China Construction Bank — Boshi Yufu Securities Investment Fund	7,185,169	A Share
7	Shanghai Electric Group Finance Co., Ltd.	7,000,000	A Share
8	Minmetals Finance Corporate. Limited	7,000,000	A Share
9	China Life Insurance Co., Ltd — traditional — general insurance products — 005L-CT001Shanghai	6,112,949	A Share
10	Guo Yi	4,588,800	A Share

The Bank is not aware of any connection or in-concert relations between the aforesaid shareholders.

Interests of Substantial Shareholders

According to the register records maintained by the Bank pursuant to Section 336 of the Securities and Futures Ordinance, as of 31 December 2007, the following substantial shareholders and other persons had the following interests and short positions in shares and underlying shares of the Bank:

Name of shareholder	Number of shares held	Type of shares	Shareholding percentage of A share (%)	Shareholding percentage of H share (%)	Total shareholding percentage (%)	Type of shareholder
CITIC Group	24,329,608,919	A share	91.36%	—	62.33%	Beneficial owner
CIFH	5,855,002,200	H share	—	47.21%	15.00%	Beneficial owner
BBVA	1,885,311,281	H share	—	15.20%	4.83%	Beneficial owner

Save as disclosed above, as at 31 December 2007, no other interests or short positions of any person or company in shares or underlying shares of the Bank were recorded in the register maintained by the Bank under sections II and III of Part XV of the Securities and Futures Ordinance.

Other legal entity shareholder holding 10% shares or more (excluding Hong Kong Securities Clearing Company Nominees Limited) of the Bank

CIFH holds 15% shares of the Bank.

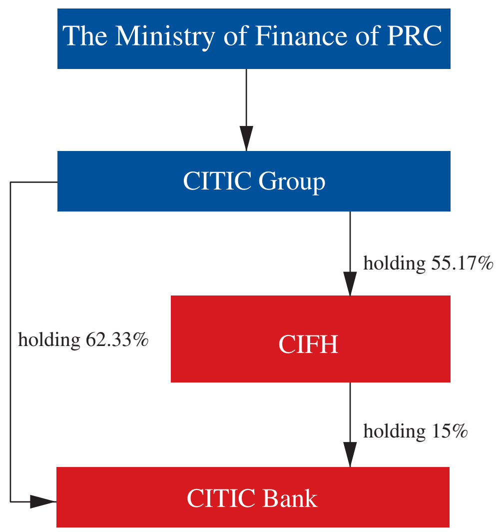
CIFH is an investment holding Company listed in Hong Kong Stock Exchange. It was established after reconstruction from the CITIC Ka Wah Bank Co. Ltd. on 25 November 2002. CIFH is the holding company of the CITIC Ka Wah Bank Co., Ltd (formerly known as Hong Kong Chinese Bank Co., Ltd), a Hong Kong registered banking corporation ("CITIC Ka Wah"). The registered place and the principal business operation place of CIFH is in Hong Kong. The registered capital is HKD8 billion, Mr. Kong Dan is the chairman. Its main business includes providing general bank services and related financial services. CIFH also holds 50% equity of CITIC Capital Holdings and 40% equity of CITIC International Asset Management Company. CITIC Capital Holdings focuses on the management of investment in China and consulting service while CITIC International Asset Management Company focuses on the management of non-performing assets, direct investment and financial consulting.

Controlling Shareholders and real controller of the Bank

CITIC Group is the controlling shareholder and de facto controller of the Bank, holding 62.33% shares in the Bank. There was no change in shareholders and de facto controller of the Bank within the reporting period herein.

The registered office and place of business of CITIC Group are located in Beijing. CITIC Group, with the initiation and approval by Deng Xiaoping, the chief architect of China's reform and opening-up and the State Council, was established in October 1979 by Rong Yiren, former Vice Chairman of PRC as the first window corporate. As of 31 December 2007, the registered capital of CITIC Group was RMB30 billion, and its legal representative was Mr. Kong Dan. CITIC Group is a large-scale leading multinational state-owned enterprise in China, whose investment focuses on industries such as financial services, information technology, energy sources and heavy industry. At present, it has business presences in Hong Kong, America, Canada and Australia.

The following charts illustrates the shareholding structure of the Bank and its controlling shareholder:



Directors, Supervisors, Senior Management and Staff

Determination

Basic Information of Directors, Supervisors, Senior Management and Staff of the Bank

Board of Directors

Name	Title	Sex	Age	Tenure of office	Number of shareholdings at the beginning of the year	Number of shareholdings at the end of the year	Reasons for change	Share incentives within the report period: Number of exercisable shares	Number of exercised shares	Strike price	Market value at the end of the year	Whether it is received from shareholders' units or other related units
Mr. Kong Dan	Chairman, Non-executive director	male	60	Dec, 2006–Dec, 2009	0	0	—	0	0	0	0	Yes
Mr. Chang Zhenming	Vice-chairman, Non-executive director	male	51	Dec, 2006–Dec, 2009	0	0	—	0	0	0	0	Yes
Mr. Wang Chuan	Non-executive director	male	59	Dec, 2006–Dec, 2009	0	0	—	0	0	0	0	Yes
Mr. Chen Xiaoxian	Executive director, president	male	53	Dec, 2006–Dec, 2009	0	0	—	0	0	0	0	No
Mr. Dou Jianzhong	Non-executive director	male	52	Dec, 2006–Dec, 2009	0	0	—	0	0	0	0	Yes
Mr. Wu Beiying	Executive director, executive vice-president	male	57	Dec, 2006–Dec, 2009	0	0	—	0	0	0	0	No
Ms. Chan Hui Dor Lam Doreen	Non-executive director	female	53	Dec, 2006–Dec, 2009	0	0	—	0	0	0	0	Yes
Mr. Ju Weimin	Non-executive director	male	44	Feb, 2007–Feb, 2010	0	0	—	0	0	0	0	Yes
Mr. Zhang Jijing	Non-executive director	male	52	Feb, 2007–Feb, 2010	0	0	—	0	0	0	0	Yes
Mr. José Ignacio Goirigolzarri	Non-executive director	male	53	Feb, 2007–Feb, 2010	0	0	—	0	0	0	0	Yes
Mr. Bai Chong-En	Independent non-executive director	male	44	Dec, 2006–Dec, 2009	0	0	—	0	0	0	0	No
Mr. John Dexter Langlois	Independent non-executive director	male	65	Dec, 2006–Dec, 2009	0	0	—	0	0	0	0	No
Mr. Ai Hongde	Independent non-executive director	male	53	Feb, 2007–Feb, 2010	0	0	—	0	0	0	0	No
Mr. Xie Rong	Independent non-executive director	male	55	Feb, 2007–Feb, 2010	0	0	—	0	0	0	0	No
Mr. Wang Xiangfei	Independent non-executive director	male	56	Dec, 2006–Dec, 2009	0	0	—	0	0	0	0	No

Board of Supervisors

Name	Title	Sex	Age	Tenure of office	Number of shareholdings at the beginning of the year	Number of shareholdings at the end of the year	Reasons of changes	Share incentives within the report period: Number of exercisable shares	Number of exercised shares	Strike price	Market value at the end of the year	Whether it is received from shareholders' units or other related units
Ms. Liu Chongming	Chief supervisor	female	61	Dec, 2006–Dec, 2009	0	0	–	0	0	0	0	Yes
Ms. Wang Shuanlin	External supervisor	male	58	Dec, 2006–Dec, 2009	0	0	–	0	0	0	0	No
Ms. Zhuang Yumin	External supervisor	female	45	Mar, 2007–Mar, 2010	0	0	–	0	0	0	0	No
Mr. Zheng Xuexue[1]	Supervisor	male	53	Aug, 2007–Aug, 2010	0	0	–	0	0	0	0	Yes
Mr. Guo Ketong	Supervisor	male	53	Dec, 2006–Dec, 2009	0	0	–	0	0	0	0	Yes
Mr. Lin Zhengyue	Employee supervisor	male	44	Dec, 2006–Dec, 2009	0	0	–	0	0	0	0	No
Mr. Deng Yuewen	Employee supervisor	male	43	Dec, 2006–Dec, 2009	0	0	–	0	0	0	0	No
Mr. Ligang	Employee supervisor	male	38	Dec, 2006–Dec, 2009	0	0	–	0	0	0	0	No

Note: (1) The Bank announced on 2 August, 2007: Mr. Li Qianxin resigned from his post as supervisor of the Bank because of his retirement since 2 August, 2007.

Senior management

Name	Title	Sex	Age	Tenure of office	Number of shareholdings at the beginning of the year	Number of shareholdings at the end of the year	Reasons of changes	Share incentives within the report period: Number of exercisable shares	Number of exercised shares	Strike price	Market value at the end of the year	Whether it is received from shareholders' units or other related units
Mr. Chen Xiaoxian	Executive director, president	male	53	Dec, 2006–	0	0	–	0	0	0	0	No
Mr. Wu Beiying	Executive director, executive vice-president, Head of Risk Management	male	57	Dec, 2006–	0	0	–	0	0	0	0	No
Mr. Ouyang Qian	Vice-president	male	52	Dec, 2006–	0	0	–	0	0	0	0	No
Mr. Zhao Xiaofan	Vice-president, general manager of headquarters Beijing Branch	male	43	Dec, 2006–	0	0	–	0	0	0	0	No
Mr. Wang Lianfu	Secretary to the Commission for Discipline Inspection, Head of Human Resource Management (vice president level)	male	53	Dec, 2006–	0	0	–	0	0	0	0	No
Mr. Su Guoxin	Vice-president	male	40	Dec, 2006–	0	0	–	0	0	0	0	No
Mr. Cao Tong	Vice-president	male	39	Dec, 2006–	0	0	–	0	0	0	0	
Mr. Cao Guoqiang	Assistant President, Head of Finance Management	male	43	Dec, 2006–	0	0	–	0	0	0	0	No
Mr. Zhang Qiang	Assistant president	male	44	Dec, 2006–	0	0	–	0	0	0	0	No
Mr. Luo Yan	Secretary to the Board of Directors	male	38	Jan, 2007–	0	0	–	0	0	0	0	No

Changes in shares of the Bank held by directors, supervisors and senior management

The directors, supervisors and senior management of the Bank haven't held any shares of the Bank within the reporting period.

Directors

Mr. Kong Dan

60, Chinese nationality

Chairman and Non-executive Director of the Bank. He became a member of the Board of Directors of the Bank in December, 2005. Mr. Kong concurrently holds the positions of chairman of CITIC Group, CITIC International Financial Holdings Limited, CITIC Hong Kong Group, CITIC Resources Holdings Limited, and CITIC United Asia Investment Limited, and non-executive director of CITIC Ka Wah Bank Limited, or CKWB. Mr. Kong was the vice chairman and general manager of CITIC Group from July, 2000 to July, 2006. During the period from November, 2002 to October, 2006, he assumed the position of Board Chairman of CKWB. Before joining CITIC Group, he had served with China Everbright Group Limited, a financial holding company, for a long period of time, and used to hold the senior management posts including executive director and deputy general manager, and vice chairman and general manager. Mr. Kong used to work at the Office of State Councilor and Directors of the National Economic Commission. Mr. Kong is a senior economist. He graduated from the Graduate School of Chinese Academy of Social Sciences with a master's degree in Economics.

Mr. Chang Zhenming

51, Chinese nationality

Vice Chairman and Non-executive Director of the Bank. He became a member of the Board of Directors of the Bank in December, 2006. Mr. Chang is also vice chairman and director of CIFH and non-executive director of CKWB. Mr. Chang has served as vice chairman and general manager of CITIC Group and director of CITIC Pacific Limited since August 2006, and chairman of CITIC International Assets Management Limited since October, 2006. Mr. Chang was vice chairman and president of China Construction Bank Corporation from September, 2004 to July, 2006, an executive director and deputy general manager of CITIC Group from August, 1995 to July, 2004, assistant president of CITIC Group from January, 1994 to August, 1995, vice president of the Bank from September, 1993 to January, 1994, and assistant president of the Bank from October, 1992 to September, 1993. Mr. Chang is a senior economist. He graduated from Beijing Second Foreign Language College with a bachelor's degree in Japanese language, and received his master's degree in business administration at New York College of Insurance.

Mr. Wang Chuan

59, Chinese nationality

Non-executive Director of the Bank. He joined the Board of Directors of the Bank in December, 2005. Mr. Wang is also vice chairman of CITIC Group and vice chairman and president of CITIC Holdings Company Limited, or CITIC Holdings. Prior to joining CITIC Group, Mr. Wang was vice chairman of China Everbright Group Limited and vice chairman and president of China Everbright Bank Co., Ltd from October, 2001 to July, 2004. Prior to that, he also worked at Agricultural Bank of China for more than 20 years and held multiple positions including vice president of headquarters, president of Jilin Branch, general manager of the Credit Department, and deputy general manager of the Research department and the Human Resources Department of headquarters. Mr. Wang is a senior economist, and graduated from Renmin University of China with an associate's degree.

Dr. Chen Xiaoxian

53, Chinese nationality

Executive Director and President of the Bank. He joined the Bank in November, 2004. He also serves as executive director and deputy general manager of CITIC Group and non-executive director of CIFH and CKWB. Dr. Chen is a mentor of doctoral candidates and visiting professor of Dongbei University of Finance and Economics, as well as visiting professor of Renmin University of China. Dr. Chen was a director, executive vice president and vice president of China Merchants Bank from March 2000 to October 2004. Before that, he was president of Beijing Branch of China Merchants Bank from December, 1993 to March, 2000. In addition, he was dean, president assistant and vice president of Beijing Branch of the People's Bank of China ("PBOC") from September, 1982 to December, 1993. He is a senior economist, and has 25 years of banking experience in China. Dr. Chen graduated from Renmin University of China with a bachelor's degree in Finance. He received his master's degree in Finance from South-West University of Finance and Economics and his Ph.D in Finance from Dongbei University of Finance and Economics. From 2005 to 2007, Dr. Chen received the "China's Top Ten Finance Figures of the Year Award" from "The Chinese Banker" magazine for three consecutive years. He also received the "Top Ten New Leaders in Finance of the Year Award" from the China International Finance Forum in 2006 and 2007.

Mr. Dou Jianzhong

52, Chinese nationality

Non-executive Director of the Bank. Mr. Dou is also executive director and vice general manager of CITIC Group, director and chief executive officer of CIFH, Board chairman of CKWB, director of CITIC International Assets Management Limited and director of China Investment and Finance Limited. He joined CITIC Group in 1980 and joined the bank in April, 1987, and served as vice president from 1987 to 1994 and president from 1994 to 2004. Mr. Dou graduated from University of International Business and Economics and received his master's degree in Economics from Liaoning University. Mr. Dou is a senior economist. Mr. Dou has extensive experience in financial industry.

Mr. Wu Beiying

57, Chinese nationality

Executive Director and Executive Vice President of the Bank. Mr. Wu joined the bank in August, 1987 and has worked at the bank since then. He was our vice president from July, 1995 to December, 2001, and served concurrently as president of our Beijing Branch from July, 1996 to September, 1999, and president of our Guangzhou Branch from September, 1999. Mr. Wu served as our assistant president from December, 1993 to July, 1995. He is a senior economist. Mr. Wu graduated from Central College of Finance and Economics with a master's degree in Money and Banking.

Ms. Chan Hui Dor Lam Doreen

53, Chinese nationality

Non-executive Director of the Bank. She became a member of the Board of Directors in December, 2006. Ms. Chan joined CIFH in 1998 as vice executive president, and then was appointed director of CIFH in May, 2001. She has been the managing director and alternate chief executive officer of CIFH, director and chief executive officer of CKWB and chairman of HKCB Finance Limited since 2002. Ms. Chen has rich experience in credit, risk management, human resources and strategic development. Ms. Chan is also a member of the Hong Kong Banking Advisory Committee, Board of Trustees of Hong Kong Baptist University and the Financial Committee of HKBU. Before joining CIFH. Ms. Chan was in charge of the retail banking department of Standard Chartered Bank (Hong Kong) Limited. Ms. Chan has over 30 years of extensive experience in banking industry.

Mr. Ju Weimin

44, Chinese nationality

Non-executive Director of the Bank. He became a member of the Board of Directors in February, 2007. He also serves as director and chief financial officer of CITIC Group, non-executive director of CIFH and CKWB, and chairman of the board of CITIC Trust and director of CITIC Securities Co., Ltd.. Since August, 1987, Mr. Ju served at multiple positions, including project manager of China International Economic Consultants Co., Ltd, manager of financial affairs of Zhongxin Iron & Steel Co., Ltd. and managing director of Shortridge Co., Ltd., vice director and director of the financial affairs department, chief accountant, chief financial officer and director of CITIC Group, etc. He graduated from Renmin University of China and received his master's degree in Accounting.

Mr. Zhang Jijing

52, Chinese nationality

Non-executive Director of the Bank. He joined the Board of Directors of the Bank in February, 2007. He also serves as director, assistant general manager and head of the Strategy and Planning Department of CITIC Group and director of CITIC Resources Holdings Limited CITIC Securities Co., Ltd, CITIC Real Estate Co., Ltd. and Zhonghai Trust Co., Ltd. Mr. Zhang served as director, director of the Strategy and Planning Department and director of the Integrated Planning Department of CITIC Group, as well as deputy general manager and general manager of CITIC Australia Pty. Ltd. and deputy manager of the Mineral Resources Division of the Overseas Investment Department of CITIC Group since December, 1984. Mr. Zhang is a senior economist. He graduated from Graduate School of Chinese Academy of Social Sciences and received his master's degree in Economics.

Mr. José Ignacio Goirigolzarri

53, Spanish nationality

Non-executive Director of the Bank, he became a member of the Board of Directors in February, 2007. Mr. Goirigolzarri is also president and chief operating officer of BBVA, and chairman of Spain USA Counsel Foundation. He has been a director of BBVA Bancomer since 2000 and president and chief operating officer of BBVA since 2001. After BBV and Argentaria merged into BBVA in 1999, he has been a member of BBVA's Executive Committee and was in charge of all the Group's businesses in Latin America. He previously served as a member of the Executive Committee and general manager of BBV and was in charge of retail banking and business in America and responsible for business development in Latin America. Mr. Goirigolzarri graduated from University of Deusto with a bachelor's degree in economics. He also studied finance and strategic planning in the University of Leeds, the United Kingdom.

Dr. Bai Chong-En

44, Chinese nationality

Independent Non-executive Director of the Bank and joined the Board of Directors in December, 2006. Dr. Bai is a dean of the Economic Department of the School of Economics and Management of Tsinghua University. He has been an assistant professor and associate professor at the School of Economics and Finance of University of Hong Kong, a distinguished Professor at the School of Economics and Management of Tsinghua University. He has also been a Mansfield Freeman Chair Professor of Economics and a mentor of doctoral candidates since 1999. He previously taught at Boston College in the United States. Dr. Bai graduated from the University of Science and Technology of China with a Bachelor's Degree in Mathematics, and received his Ph.D in Mathematics from the University of California, San Diego and Ph.D in Economics from Harvard University.

Dr. Bai has achieved great accomplishments in fields like Development and Transition Economics, Public Economics, Corporate Governance, Finance and Industrial Economics. In 2006, he won the National Science Fund for Distinguished Young Scholars, and was honored as a Cheung Kong Scholarship by the Ministry of Education of the People's Republic of China in 2007. He also holds many social positions, including a member on the editorial board of World Bank Economic Review and Chinese Business Review, and a joint editor-in-chief of China Journal of Economics of Tsinghua University, a member of the IPD Taskforce on Corporate Governance at Columbia University, a research fellow at the William Davidson Institute at University of Michigan, and used to be an advisor for the World Bank.

Dr. John Dexter Langlois

65, American nationality

Independent Non-executive Director of the Bank, and became a member of the Board of Directors in December, 2006. Dr. Langlois has been managing director of the Cable Investment Management Limited since February, 2008, and served as director of Bank of Shanghai, director of Nanjing Commercial Bank, non-executive chairman and director of Shenzhen Development Bank. Dr. Langlois served as director and GM of the Countrywide Capital Markets Asia Limited from March, 2006 to November, 2007. From September, 2002 and August, 2005, he served as chairman of Morgan Stanley Properties (China). Dr. Langlois previously served as vice president of the International Financial Management Department in New York of J.P. Morgan, managing director of Japan branch of J.P. Morgan Guaranty Trust, head of the Properties Division of the Investment Banking Department of Japan Branch, head of the Properties Division of the Investment Banking Department of London Branch, head of the Chinese Businesses Division of the Investment Banking Department of Hong Kong Branch, head of the Asian Customers Division of the Investment Banking Department of New York Branch, and chief representative of Beijing Representative Office. Dr. Langlois graduated from Princeton University with a Ph.D in East Asia Studies, and then he received his master's degree in Arts from Harvard University and master's degree in Business Administration from New York University successively.

Dr. Ai Hongde

53, Chinese nationality

Independent Non-executive Director of the Bank. He became a member of the Board of Directors in February, 2007, and now is president of Dongbei University of Finance & Economics. Dr. Ai was elected representative of the 11th NPC in January, 2008. Dr. Ai served as vice president of Dongbei University of Finance & Economics from January, 1999 to May, 2005, vice director of Dalian High-Tech Park from March to December, 1998, vice secretary general in Dalian Municipal Government from December, 1997 to February, 1998, assistant president of Dongbei University of Finance & Economics from July, 1996 to November, 1997, and vice dean of the Finance Department of Dongbei University of Finance & Economics from January, 1993 to June, 1996. Dr. Ai is a professor and mentor of doctoral candidates. He has been awarded the special government allowance by the State Council since 2000. Dr. Ai graduated from Dongbei University of Finance and Economics with Ph.D in Money and Banking.

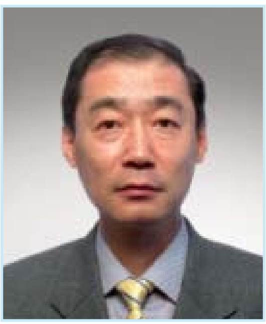
Dr. Ai has made tremendous achievements in such fields like currency policy and theory, management of financial institutions, international finance, financial market, and regional finance and credit systems. He has led and completed 16 research projects funded by national or provincial government. Dr. Ai's academic opinions and policy proposals have been adopted and implemented by the PBOC, the State Council, the Standing Committee of the National People's Congress, Liaoning Provincial Government and Dalian Municipal Government. Dr. Ai also holds many social positions, including executive director of China Society for Finance and Banking, member of the academic committee of China Society for Finance and Banking, member of Standing Council and Academic Committee of China Society for International Finance and Banking, vice chairman of Liaoning Society for Price, vice chairman of Liaoning Society for International Economic Law and vice chairman of Liaoning Social Sciences Association. Dr. Ai is currently an independent director of Liaoning Chengda Co., Ltd.

Dr. Xie Rong

55, Chinese nationality

Independent Non-executive Director of the Bank. He joined in the Board of Directors in February, 2007. He serves as the vice president of Shanghai National Accounting Institute. Dr. Xie served as a partner of KPMG from December, 1997 to October, 2002, and vice dean of the Accounting Department, a mentor of doctoral candidates, a professor, an associated professor and a lecturer of Shanghai University of Finance and Economics from December, 1985 to December, 1997, during which period, Dr. Xie also was a senior visiting scholar at Warwick University in the United Kingdom for one year. He was also a part-time certified public accountant at Dahua Accounting Firm and PwC Dahua Accounting Firm. Dr. Xie graduated from Shanghai University of Finance and Economics and received his Ph.D in Economics.

Dr. Xie has made tremendous achievements in fields like Accounting, Audit and internal control of financial enterprises. He has led or participated in many research projects funded by the PRC government, Ministry of Finance and the Chinese Institute of Certified Public Accountants. He also holds many social positions, including member of the accounting master's degree education and guidance subcommittee of the Degree Committee of Chinese Government, executive director of China Audit Society, member of the standing committee of the education division of China Accounting Society, vice chairman of Shanghai Institute for Cost Research. He also serves as independent director of Shanghai Automotive Co., Ltd., China Shipping Development Co., Ltd., China Eastern Airlines Co., Ltd.,.



Mr. Wang Xiangfei

56, Chinese nationality

Independent Non-executive Director of the Bank. He joined the Board of Directors in December, 2006. Mr. Wang serves as vice chief financial officer of Sonangol Sinopec International Limited and financial advisor of China Sonangol International Holding Limited and independent non-executive director of Shenzhen Rural Commercial Bank Company Limited. Mr. Wang has served as independent non-executive director of two H and A-share listed companies (Tianjin Capital Environmental Protection Co., Ltd. and Chongqing Iron and Steel Company Limited) and non-executive director of SEEC Media Group Limited, a company listed on Hong Kong Stock Exchange. During the period from 1996 to 2002, he was director and assistant general manager of China Everbright Holdings Co Ltd. ("China Everbright") and held multiple senior management positions in various listed companies owned by China Everbright, and held senior management positions in companies engaging in banking and related financial services providing institutions. Mr. Wang is a senior accountant. He graduated from Renmin University of China with a bachelor's degree in Economics majoring in finance. Mr. Wang has once taught as a teaching assistant for finance at the Department of Finance in Renmin University of China.

Supervisors

Ms. Liu Chongming

61, Chinese nationality

Chairwoman of Board of Supervisors of the Bank. During the period from March, 2003 to December, 2006, Ms. Liu was chief auditor of CITIC Group and vice chairman of CITIC Holdings. Before joining CITIC Group, Ms. Liu served as secretary to the party committee and president of Tianjin branch of the PBOC from January, 1999 to March, 2003, and director of the audit bureau of the headquarters of the PBOC and head of the first section of the regulatory department of the PBOC from May, 1996 to December, 1998. She was vice president, president and secretary to the party committee of Hubei branch of the PBOC from 1985 to 1996. During the period, she was also an adjunct professor of Huazhong University of Science and Technology, Wuhan University and Zhongnan University of Finance and Economics. Ms. Liu has been qualified as senior economist. She graduated from Hubei University (currently known as Zhongnan University of Finance and Economics).

Mr. Wang Shuanlin

58, Chinese nationality

External Supervisor of the Bank, Mr. Wang has served as a full-time supervisor of the Board of Supervisors of CITIC Group since January, 2003. Before that, Mr. Wang held multiple positions in finance industry, including deputy general manager of China Government Bond Depository and Clearance Limited, director and deputy general manager of China Securities Trading System Limited, section head of the audit department and director of the Office of General Affairs of the headquarters of PBOC. Mr. Wang is a senior economist. He graduated from the Department of Finance, Renmin University of China with a bachelor's degree.

Ms. Zhuang Yumin

45, Chinese nationality

External Supervisor of the Bank. Ms. Zhuang is currently Dean and Professor, as well as Mentor of doctoral candidates at the Monetary Finance Department of the Finance School, Renmin University of China. Before that she worked at the Finance Department as deputy dean of the Finance Study Unit and Dean of Finance Department since 1995. From 1984 to 1995, Ms. Zhuang was deputy dean of a research unit of the Fiscal Department of Renmin University of China. She graduated from the Finance Department of Renmin University of China with a master's degree and then Ph.D degree in Enomics.

Mr. Zheng Xuexue

53, Chinese nationality

Supervisor of the Bank. Mr. Zheng is also director of the Audit Department of the CITIC Group. Mr. Zheng was vice director of the Audit Department of the CITIC Group and its predecessor China International Trust and Investment Corporation from March, 2000 to April, 2007. Mr. Zheng was cadre, vice director, director and dean assistant in CITIC Group from March, 1986 to March, 2000. He worked in Beijing Police Bureau from March, 1983 to March, 1986. Mr. Zheng is a senior accountant and graduated from Renmin University of China with a bachelor's degree in Economics in March, 1983.

Mr. Guo Ketong

53, Chinese nationality

Supervisor of the Bank. Mr. Guo is also director of the Human Resources Department of CITIC Group. Mr. Guo has served as director of CITIC Australia Pty. Ltd, CITIC Real Estate Co., Ltd and was deputy director, assistant director, section head, and deputy section head of the human resources department of CITIC Group. Mr. Guo is an economist. He graduated from Renmin University of China with an associate's degree.

Mr. Lin Zhengyue

44, Chinese nationality

Supervisor of the Bank, Mr. Lin has been general manager of the Audit Department of the headquarters since August, 2007. He was assistant general manager and deputy manager of the audit department of the headquarters from June, 2005 to July, 2007 and deputy manager of the audit department of Nanjing Branch from March, 2004 to June, 2005. Prior to joining the Bank, Mr. Lin worked at Jiangshu Provincial Branch of Industrial and Commercial Bank of China. Mr. Lin is an economist of China, America Registered Financial Planner (RFP) and America Certified Financial Consultant (CFC). Mr. Lin has 23 years of banking experience in China. He received his bachelor's degree in Finance from Jiangsu TV University.

Mr. Deng Yuewen

43, Chinese nationality

Supervisor of the Bank. Mr. Deng has been general manager of the Risk Management Department of Beijing Branch of the bank since February, 2007. Mr. Deng has also been in charge of the Risk Management Department of our headquarters from October, 2005 to February, 2007. He was deputy general manager of the Risk Management Department of our headquarters from February, 2004 to October, 2005. Prior to that position, he worked at the Credit Department of the headquarters, the personal banking department of the headquarters and the Credit Department of Shenzhen Branch from April, 1996 to February, 2004. Mr. Deng has worked at the Bank since April, 1996. Mr. Deng graduated from Wuhan Technology Institute with a bachelor's degree and received his master's degree in Money and Banking from PBOC Headquarters Finance Research Institute.

Mr. Li Gang

38, Chinese nationality

Supervisor of the Bank. Mr. Li has served as assistant general manager of the Budget and Finance Department and general manager of Assets and Liabilities Management Department of the Bank since June, 2006. Mr. Li was head of the Treasury Management Section of the Budget and Finance Department of the Bank, general manager of the Budget and Finance Department of our Beijing Branch from June, 2000 to June, 2006. He also served as assistant manager and deputy manager of the Finance Department of CITIC Daxie Development Limited, and vice section head and section head of the Treasury Section of the Finance and Taxation Bureau. Mr. Li graduated from China Finance Institute.

Senior Management

Dr. Chen Xiaoxian

53, Chinese nationality

He has served as executive director and president of the Bank. Please refer to Directors of the Bank for his Resume.

Mr. Wu Beiying

57, Chinese nationality

He has been the executive director, executive vice president and person in charge of risk management of the Bank. Please refer to Directors of the Bank for his Resume.

Dr. Ouyang Qian,

52, Chinese nationality

Vice President of the Bank. Dr. Ouyang has been working with the Bank since 1988. Since 2005, he has also been working with China Finance and Investment Company as Board chairman. Dr. Ouyang was appointed vice president of the Bank in July, 1995. Before that he had been the assistant president from April, 1994 to July, 1995. Dr. Ouyang was in charge of research and design for internal risk control system of the bank in 1991. In January, 1989, he worked in the Treasury Department of the Bank engaging in foreign exchange transactions, bond transactions and gold deal. In September of the same year, Dr. Ouyang took up asset portfolio investment management. Dr. Ouyang is a senior economist. He graduated from Tsinghua University with a master's degree in Hydraulic Machinery, and then received a doctor's degree in Aeronautical Engineering from University of Manchester in UK.

Dr. Zhao Xiaofan,

43, Chinese nationality

Vice President of the Bank. Dr Zhao is also general manager of our Beijing Branch since April, 2006. Dr. Zhao was the assistant president from August, 1998 to December, 2001. He has worked at the Bank since July, 1986. Dr. Zhao is a senior accountant. He graduated from Renmin University of China with a bachelor's degree in Financial Accounting, and received his master's degree in International Finance from Liaoning University and a Ph.D in Finance from the Graduate School of Peking University.

Mr. Wang Lianfu,

53, Chinese nationality

Secretary to the Committee for Discipline Inspection and the director of human resources (vice president level). Mr. Wang also held the position of general manager of Human Resources Department of the Bank from January, 2005 to March, 2006. He was assistant president of the Bank from June, 1995 to February, 1999, and has worked at the bank since May, 1987. During the period from December, 1984 to May, 1987, he worked at the Personal Distribution Division of the Human Resources Department of CITIC Group. Mr. Wang is a senior economist, and got a bachelor's degree in Politics and Law from Beijing Normal University and a master's degree in Money and Banking from Dongbei University of Finance and Economics.

Mr. Su Guoxin,

40, Chinese nationality

Vice President of the Bank. Mr. Su was deputy director of the General Office of CITIC Group, secretary to chairman of CITIC Group and chairman of the Bank. He has been secretary to chairman of CITIC Group since June, 1997. He worked in Translation Office of the Ministry of Foreign Affairs of PRC from August, 1991 to October, 1993. He worked in CITIC Group in charge of corporate communications from October, 1993 to May, 1997. He worked in financial companies including SBC and UBS from January, 1996 to January, 1997. Mr. Su graduated from Tianjin Foreign Studies University with a bachelor's degree in Arts. He was a graduate student studied in United Nations Interpretation Training program of Beijing Foreign Studies University. Mr. Su received his master's degree in Business Administration from the Open University of Hong Kong.

Mr. Cao Tong,

39, Chinese nationality

Vice President of the Bank. He was assistant president from December, 2004 to December, 2006 and concurrently served as general manager of the Personal Banking Department of the Bank from January, 2005 to March, 2006. Prior to joining the Bank, Mr. Cao worked at China Merchants Bank and served as deputy manager of the Planning and Treasury Department, manager of the Business Department, assistant president and vice president of Beijing branch, general manager of the Personal Banking Department of headquarters and deputy director of Shenzhen Administrative Department as person in charge. He also worked at the Beijing branch of the PBOC from July, 1990 to January, 1994. Mr. Cao has 17 years of banking experience in China. He is a senior economist and graduated from Renmin University of China with a bachelor's degree in Economics. He received his master's degree in Finance from the same university.

Mr. Cao Guoqiang,

43, Chinese nationality

Vice President. He served as the general manager of the Budget and Finance Department of the Bank from April, 2005 to April, 2006. Mr. Cao served as the deputy general manager and general manager of the Planning and Treasury Department of the headquarters of China Merchants Bank, general manager of the Treasury Department of China Merchants Bank Shenzhen Administrative Department, director and deputy general manager in charge of China Merchant Bank Pawn Co., Ltd, director of Shenzhen Speed International Investment Co., Ltd, and assistant manager of the Treasury Department of China Merchants Bank. Mr. Cao also worked at the Planning and Treasury Department of the Sha'anxi Branch of PBOC as a senior staff member and vice section head from July, 1988 to June, 1992. He has worked in China's banking industry for 19 years. Mr. Cao is a senior economist. He graduated from Hunan College of Finance & Economics with a bachelor's degree in Money and Banking. He received his master's degree in Money and Banking from Shanxi College of Finance and Economics.

Mr. Zhang Qiang,

44, Chinese nationality

Vice President of the Bank. He was deputy general manager, executive deputy general manager and general manager of the Beijing Branch from January, 2000 to April, 2006. From September, 1990 to March, 2000, he held various positions in the Credit Department of the headquarters, Jinan Branch and Qingdao Branch, including deputy general manager and general manager of Credit Department of the headquarters, vice president and president of branch. Mr. Zhang has worked at the Bank since September, 1990. Mr. Zhang is a senior economist. He graduated from Zhongnan University of Economics and Law with a bachelor's degree in Planning and Statistics, and received his master's degree in Finance from Liaoning University.

Engagement or Removal of the Bank's Directors, Supervisors and Senior Management

In January 2007, Mr. Xi Bolun resigned as independent director because of personal reason;

In January 2007, Mr. Su Guoxin was appointed the vice president of the Bank at the second meeting of the first Board of Directors of the Bank. He was no longer the Secretary to the Board of Directors. Mr. Luo Yan was appointed Secretary to the Board of Directors;

In February 2007 when the Bank's first interim shareholders' general meeting was held, Mr. Ju Weimin, Mr. José Ignacio Goirigolzarri and Mr. Zhang Jijing were elected non-executive directors of the Bank, Mr. Xie Rong and Mr. Ai Hongde were elected independent non-executive directors;

In March 2007, when the third interim shareholders' general meeting of 2007 was held, Ms. Zhuang Yumin was elected external supervisor of the Bank;

In August 2007, when the 2006 annual shareholders' general meeting was held, Mr. Zheng Xuexue was elected supervisor of the Bank. Mr. Li Qianxin resigned from the position of supervisor from 2 August, 2007 because of his retirement.

Annual Remuneration

The Bank offers remuneration to executive directors, supervisors and senior management who also serve as the employees of the Bank, including basic salary, bonus, allowance, subsidy, employee welfare and insurances, housing fund and annual pension. Independent non-executive directors and external supervisors of the Bank receive allowance. None of the non-executive directors (except independent directors) and shareholder supervisors receive any salary or directors' fee from the Bank. The Bank hasn't provided any incentive shares to the directors, supervisors and senior management.

Within the reporting period during 2007, there are 19 directors, supervisors and senior management, among whom, there are 5 independent directors, 1 external supervisor, 3 employee supervisors, 2 members of senior management assuming the position of director and 8 members of senior management not in the Board. The total income before tax paid to all directors, supervisors and senior management by the Bank was RMB 0.468 million. There into, six of them received remunerations under RMB 0.1 million, four of them between RMB 0.1 million and RMB 0.3 million, eight of them between RMB 0.3 million and RMB 0.5 million, and one of them between RMB 0.5 million and RMB0.7 million.

Staff

At the end of the year 2007, there were 15,070 staff in the Bank, 2,495 more than those of the end of last year among them, 5,318 are personnel of corporate banking business in the Bank, 4,360 are personnel of retail banking business, 121 are personnel of capital marketing business, 2,258 are personnel of financial accounting, 1,699 are personnel of risk management, internal auditing and legal compliance, 518 are personnel of information technology and 796 are personnel of other departments. Among the employees, there are 1,770 people having master's degree or above, accounting for 11.75% of the staff; there are 8,482 people having bachelor's degree, accounting for 56.28 %of the staff; there are 4,109 people having college degree, accounting for 27.27% of the staff; there are 709 people having educational background below college degree, accounting for 4.7% of the staff. The number of retirees is 169.

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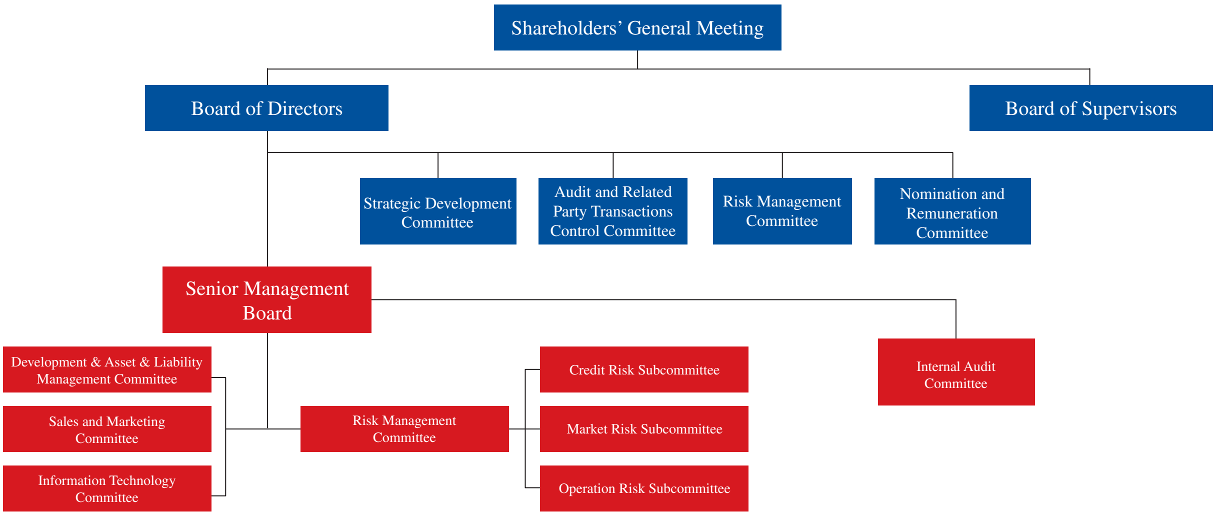
Report of Corporate Governance

The Corporate Governance Structure of the Bank



Overall Corporate Governance

We believe that a sound corporate governance structure of the Bank is the foundation upon which we can protect the interests of our investors and depositors and ensure a high-quality and sustainable development. The Bank has strictly complied with Mainland and Hong Kong laws and regulations, as well as the requirements of regulatory authorities and taken into account the reality of the Bank, set up a relatively comprehensive corporate governance structure. The Bank is committed to continually improving its corporate governance according to the internationally best practices.

The Bank has, as required by relevant laws and regulations, such as the Company Law of the People's Republic of China (the "Company Law") and the Securities Law of the People's Republic of China (the "Securities Law"), established the Shareholders' General Meeting, Board of Directors, Board of Supervisors and senior management staff etc. as its main organizational structure and has put in place institutional arrangements to guarantee that these groups can operate independently and that there are effective check and balance. The Board of Directors has four specialized committees: the Strategic Development Committee, the Audit and Related Party Transactions Control Committee, the Risk Management Committee and the Nomination and Remuneration Committee. The Shareholders' Meeting, Board of Directors, specialized committees under the Board of Directors, Board of Supervisors and senior management have formulated their own detailed rules of procedure to ensure that each organization can operate independently, and that there are effective check and balance.

Within the reporting period, the Bank has strictly complied with laws and regulations and taken into account the reality of the Bank in improving its corporate governance:

1. Systems of independent directors and external supervisors have been set up to guarantee an independent operation and effective check and balance for all corporate organizations.

2. Specialized committees of the Board of Directors have been set up and rules of procedure for each specialized committee have been formulated to promote the decision-making mechanism of Board of Directors.

3. Detailed Working Handbook for the President of the Bank has been formulated and improved, which has established a distinct responsibilities for corporate bodies and set up a clear reporting procedure and information communication mechanism.

4. The internal control system has been further optimized, while the measures, including further strengthening the supervision of the enforcement of internal control, further enhancing the enforceability of internal control of basic tiers of the Bank, have been improved to achieve such an end in accordance with general principles of a comprehensive, prudent, effective and independent internal control, which have in turn promoted a healthy, stable and safe operations of the Bank's business.

5. The Regulatory Measures on Information Disclosure of China CITIC Bank was formulated and enacted after taking into account the regulatory requirements of both Shanghai Stock Exchange and Hong Kong Stock Exchange. The Measures have specified a working system including contact person and dedicated teams for information disclosure, and have established effective communication channels for the report of important information among the headquarters and branches of the Bank, to ensure a prompt, accurate and complete disclosure of information of the Bank to safeguard the interests of domestic and overseas shareholders.

Save as disclosed below, the Bank is in compliance with the Company Law, Securities Law, and provisions of Appendix 14 of the Listing Rules — Code of Corporate Governance Practices, and is dedicated to continuously improving its corporate governance.

Information of Shareholders' General Meeting, Board of Directors and Board of Supervisors

In 2007, the Bank convened one annual shareholders' general meeting, three interim shareholders' general meetings, eleven Board of Directors meetings and three Board of Supervisors meetings, all following the procedures set out in the Bank's articles of association.

Shareholders' General Meeting

The Shareholders' General Meeting is the organ of power of the Bank. The Bank establishes an effective channel to communicate with shareholders, to ensure that all shareholders are treated equally, are properly informed and are able to participate in and exercise their voting and other rights on major issues of the Bank as shareholders. In 2007, the Bank held 2006 annual shareholders' general meeting and three interim shareholders' general meetings of the Bank and passed 15 resolutions. The Shareholders' General Meeting decided upon significant matters of the Bank according to the law, and discussed and passed resolutions on such issues as distributing dividends before listing and plan for distributing dividends after listing, the plan for listing, introducing strategic investors, amending the articles of association, and electing directors and supervisors, engaging external auditor and deciding the auditor's fee, deciding upon the allowances of the independent directors and external supervisors and so on, In doing so, the Shareholders' General Meeting managed to safeguard the rights and interests of the shareholders, and ensured the shareholders could exercise their rights and powers in accordance with law, which has significant influence on the long-term, sound and sustainable development of the Bank.

Board of Directors

The Board of Directors of the Bank consists of fifteen members, including two Executive Directors, eight Non-executive Directors and five Independent Non-executive Directors. Except for Independent Non-executive Directors who are restricted to hold office for a maximum of three years, other directors are elected by the Shareholders' General Meeting for a term of three years and may serve for multiple terms if re-elected and re-appointed. In 2006, the Bank bought responsibility insurance for members of the Board of Directors, providing safeguard for compensating responsibility which might incur when fulfilling a director's responsibility according to the law.

In 2007, the Board of Directors of the Bank held 11 meetings in total (including meetings by correspondence), on which 38 resolutions were passed, including amending articles of association, plan for listing, introduction of strategic investors, election of additional directors, appointment of chairman and members of specialized committees of the Board of Directors, appointment of senior management and secretary to the Board of Directors, approving the rules of procedure of each specialized committee, deciding upon the establishment of new branches, director and supervisor responsibility insurance and allowance proposal, appointment of external auditor and auditing expense, employees salary proposal and so on. Besides, Board of Directors also reviewed work reports of senior management regarding the management of the Bank.

Implementation of resolutions of shareholders' general meetings by the Board of Directors is as follows:

Pursuant to the Proposal of Amendments to the Articles of Association of China CITIC Bank Corporation Limited, the Proposal of Appointment of Additional Director and the Proposal of Initial Public Offering and Listing Plan and Entirely Authorizing the Board to Arrange Issues Related to Initial Public Offering and Listing reviewed and approved by the first interim shareholders' general meeting in 2007, the Board of Directors of the Bank submitted and revised articles of association of the Bank and directors' qualifications to the regulatory institution and obtained their approval. Meanwhile, the initial public offering and listing plan was also successfully implemented by the Board Directors.

Attendance rate of directors of the Bank are as follows:

Directors	Times of Attendance	Attendance rates
Kong Dan	11/11 meetings	100%
Chang Zhenming	11/11 meetings	100%
Wang Chuan(2)	11/11 meetings	100%
Chen Xiaoxian	11/11 meetings	100%
Dou Jianzhong(3)	11/11 meetings	100%
Ju Weimin	11/11 meetings	100%
Zhang Jijing	11/11 meetings	100%
Wu Beiying	11/11 meetings	100%
Chan Hui Dor Lam Doreen(4)	11/11 meetings	100%
José Ignacio Goirigolzarri	10/11 meetings	91%
Bai Chong-En(5)	11/11 meetings	100%
Ai Hongde	11/11 meetings	100%
Wang Xiangfei	11/11 meetings	100%
John Dexter Langlois	11/11 meetings	100%
Xie Rong	11/11 meetings	100%

Notes: (1) According to the Articles of Association of the Bank, directors can entrust other directors to attend board meetings and exercise voting rights by proxy.

(2) Mr. Wang Chuan didn't attend the Board Meeting in person on 8 March 2007, and he entrusted another director to attend the meeting and exercise the voting rights by proxy.

(3) Mr. Dou Jianzhong didn't attend the Board Meeting in person on 22 November 2007, and he entrusted another director to attend the meeting and exercise voting the rights by proxy.

(4) Ms. Chan Hui Dor Lam Doreen didn't attend the Board Meeting in person on 8 March 2007 and 22 November 2007, and she entrusted other directors to attend the meeting and exercise the voting rights by proxy.

(5) Mr. Bai Chong-En didn't attend the Board Meeting in person on 22 November 2007, and he entrusted another director to attend the meeting and exercise voting the rights by proxy.

Specialized committees of the Board of Directors

There are four specialized committees under the Board of Directors of the Bank, namely Strategic Development Committee, Audit and Related Party Transactions Control Committee, Risk Management Committee and Nomination and Remuneration Committee. In March 2007, the Board of Directors appointed specialized committee chairman and members.

Strategic Development Committee

The Bank's Strategic Development Committee comprises six directors. They are Mr. Chang Zhenming, Mr. Wang Chuan, Mr. Chen Xiaoxian, Mr. Dou Jianzhong, Mr. Zhang Jijing and Mr. José Ignacio Goirigolzarri. Mr. Chang Zhenming was appointed the chairman of the Strategic Development Committee. The committee's major responsibilities are to formulate and appraise the Bank's business targets and long-term development strategies, business and organization development plans, main investment and financing plans of the Bank and other important matters that would affect the Bank's development. The Committee has been authorized by the Board of Directors to supervise, and conduct tests on, the execution of annual business and investment plans, as well as to put forward suggestions to the Board.

In 2007, the Strategic Development Committee held two meetings in total, during which Rules of Procedures of the Committee was discussed and approved. Attendance rates of related directors are as follows:

Directors	Times of Attendance	Attendance rates
Chang Zhenming	2/2 meetings	100%
Wang Chuan	2/2 meetings	100%
Chen Xiaoxian	2/2 meetings	100%
Dou Jianzhong	2/2 meetings	100%
Zhang Jijing	2/2 meetings	100%
José Ignacio Goirigolzarri	2/2 meetings	100%

Audit and Related Party Transactions Control Committee

The Bank's Audit and Related Party Transactions Control Committee comprises six directors. They are Mr. Ai Hongde, Mr. Ju Weimin, Mr. Xie Rong, Mr. Bai Chong-En, Mr. Wang Xiangfei, and Mr. John Dexter Langlois. Mr. Ai Hongde was appointed the chairman of the Audit and Related Party Transaction Control Committee. The committee's major responsibilities include supervising the Bank's internal controls, financial information and internal audit matters; identifying the Bank's related parties; and reviewing and filing the Bank's related party transactions based on relevant authorization.

In 2007, Audit and Related Party Transactions Control Committee held five meetings in total, during which proposals such as Rules of Procedure of the Committee, inspection of related transaction within authority of office and regular financial reports were discussed and approved. Attendance rates of meetings of directors are as follows:

Directors	Times of Attendance	Attendance rates
Ai Hongde	5/5 meetings	100%
Ju Weimin(1)	5/5 meetings	100%
Xie Rong(2)	5/5 meetings	100%
Bai Chong-En	5/5 meetings	100%
Wang Xiangfei	5/5 meetings	100%
John Dexter Langlois	5/5 meetings	100%

Notes: (1) Mr. Ju Weimin didn't attend the Committee Meeting in person on 25 October 2007, and he entrusted another director to attend the meeting and exercise the voting rights by proxy.

(2) Mr. Xie Rong didn't attend the Committee Meeting in person on 25 October 2007 and 27 November 2007, and he entrusted other directors to attend the meeting and exercise the voting rights by proxy.

Risk Management Committee

The Bank's Risk Management Committee comprises five directors. They are Mr. Chen Xiaoxian, Mr. Ju Weimin, Mr. Wu Beiying, Mr. Ai Hongde and Mr. Bai Chong-En. Mr. Chen Xiaoxian was appointed the chairman of the Risk Management Committee. The committee's major responsibilities are to formulate the Bank's risk management strategies, policies and measures, and the Bank's internal control procedures, as well as to supervise and evaluate the risk management activities conducted by the relevant senior management and risk management departments.

In 2007, risk management committee held three meetings in total. Proposals such as Rules of Procedure of the Committee, and Risk Management Policy Report of this committee were discussed and approved. Attendance rates of meetings of directors are as follows:

Directors	Times of Attendance	Attendance rates
Chen Xiaoxian	3/3 meetings	100%
Ju Weimin	3/3 meetings	100%
Wu Beiying	3/3 meetings	100%
Ai Hongde	3/3 meetings	100%
Bai Chong-En	3/3 meetings	100%

Nomination and Remuneration Committee

The Bank's Nomination and Remuneration Committee comprises five directors, Mr. Wang Xiangfei, Mr. Ju Weimin, Mr. Ai Hongde, Mr. Xie Rong, and Mr. Bai Chong-En. Mr. Wang Xiangfei was appointed the chairman of the Nomination and Remuneration Committee. The committee's major responsibilities are to formulate the nomination procedure and candidacy standards for directors and senior management, preliminarily review and discuss the qualifications and other experiences of directors and senior management, formulate and supervise the implementation of the compensation scheme for directors, supervisors and senior management, as well as other functions authorized by the Board.

In 2007, Nomination and Remuneration Committee held four meetings in total, during which proposals such as Rules of Procedure of the Committee, allowance proposals for independent directors and external supervisors, and proposals for employees' annual remuneration management were discussed and approved. Attendance rates of related directors at the meeting are as follows:

Directors	Times of Attendance	Attendance rates
Wang Xiangfei	4/4 meetings	100%
Ju Weimin[(1)]	4/4 meetings	100%
Ai Hongde	4/4 meetings	100%
Xie Rong[(2)]	4/4 meetings	100%
Bai Chong-En	4/4 meetings	100%

Notes: (1) Mr. Ju Weimin didn't attend the Committee Meeting in person on 25 October 2007, and he entrusted another director to attend the meeting and exercise the voting rights by proxy.

(2) Mr. Xie Rong didn't attend the Committee Meeting in person on 25 October 2007, and he entrusted another director to attend the meeting and exercise the voting rights by proxy.

Board of Supervisors

Board of Supervisors is the supervision institution of the Bank and is accountable to the Shareholders' General Meeting. The Board of Supervisors of the Bank consists of eight members, including two external supervisors. The number and composition of the Board of Supervisors complied with regulatory requirements as well as the articles of association of the Bank. Except for the employee representative supervisors who are elected by the Bank's employees, other supervisors are elected at the Shareholders' General Meeting and hold office for three years. Supervisors may serve multiple terms if re-nominated and re-elected.

In 2007, the Board of Supervisors of the Bank held three meetings; proposals such as annual work report of the Board of Supervisors and regular financial reports were discussed and approved. In addition, the Board of Supervisors supervised and examined the Bank's operations and management by attending Board of Directors meetings, making field study in some of the branches, convening meetings, considering various documents and receiving reports from management.

Senior Management

Senior management is the executive institution of the Bank and is accountable to the Board of Directors. The Bank's senior management is composed of ten members, including the president, six vice presidents (including vice-president level), two assistant presidents and a secretary to the Board. There is a strict separation between the respective responsibilities and powers of the Bank's senior management, as well as the Board of Directors. The Board of Directors determines its respective scope of authority for operational management and decision-making. The Board of Directors also assesses the performance of senior management, and uses this as the basis for determining their remuneration and other incentive arrangements. The Bank has adopted an annual salary system for senior management, comprising basic annual salary and performance-based annual salary. Senior management's salaries are determined according to the extent of completion of the annual business plan and their work performance.

Special Inspection on Corporate Governance

During the reporting period, the Bank conducted self-inspection on corporate governance, based on CSRC's *Notice on Special Inspection of Corporate Governance in Listed Companies* as well as specific assignments from Beijing Securities

Regulatory Bureau under the China Securities Regulatory Commission (Beijing Securities Regulatory Bureau for short). As a result of the self-inspection, the Bank worked out a Report of the Bank on Self-Inspection of Corporate Governance, which was approved by the 8th meeting of the First Board of Directors of the Bank. The Bank also distributed the Announcement of the Bank on Extensive Opinion Solicitation on Corporate Governance in order to seek opinions from the investors.

After on-site inspection, on 5 December 2007, Beijing Securities Regulatory Bureau issued Evaluation on the Rectification of China CITIC Bank in Its Corporate Governance (BSRB [2007] 297), pointing out that the Bank had successfully conducted self-inspection, and solved relevant issues by modifying its governance system; the Bank had undertaken to further improve its corporate governance, and started to work actively according to regulatory opinions. The "Evaluation" also posed requirements on the decision-making mechanism of the Board of Directors and the Board of Supervisors, so as to further enhance the Bank's corporate governance. Based on the advice and requirements from investors and regulatory bodies, the Bank formulated the Report of the Bank on the Rectification of Corporate Governance, proposing specific measures to rectify the defects in the Bank's corporate governance. By now, the rectification has been substantially completed on time.

Internal Control

The Bank has established its own corporate governance structure, consisting of the Shareholders' General Meeting, the Board of Directors, the Board of Supervisors and senior management. Based on this structure, the Bank has set up a comprehensive internal control system, and formulated an internal control mechanism of risk prevention, risk control, and afterward correction. The Bank's internal control framework has three tiers namely the decision-making level, the executive level and the monitoring/evaluating level. Responsibility goes to the leadership of different levels and different departments, and all staff will be involved in the internal control process. Currently, the Bank's internal control system is well-formulated and effectively performing in internal control environment construction, risk identification and assessment, internal control measures on main business, information exchange and feedback, monitoring and evaluation, as well as afterward correction. This will guarantee the smooth operation of all business segments, and the realization of the Bank's operational goals.

As of 31 December 2007, the Bank has maintained an effective internal control on all major aspects related to the formulation of financial statements, and was in compliance with the *Guidelines for the Internal Control of Commercial Banks*. After reviewing by KPMG Huazhen and KPMG, there is no significant discrepancy among the contents related to the formulation of financial statements in the Self-assessment Report of the Internal Control of the Bank drafted by the management level and the audit results of the same by the Bank's auditors.

Responsibility Statement of Directors on Financial Reports

The following statement, which set out the responsibilities of the directors regarding financial statements, should be read in conjunction with, but distinguished from, the auditor's statement of their responsibilities as set out in the auditor's report contained in this annual report.

The Directors acknowledge that they are responsible for preparing financial statements of the Bank that truly represents the operating results of the Bank for each financial year. To the best of the Directors' knowledge, there was no material event or condition that might have a material adverse effect on the continuing operation of the Bank.

The Independence of Independent Non-executive Directors and their Performance

Independent non-executive directors of the Bank have no business or financial interests in the Bank and subsidiaries of the Bank, neither do they assume any management position of the Bank. Their independence is thoroughly warranted. The Bank has already received annual confirmation letter of independence from all the independent non-executive directors and agreed on their independence.

Independent non-executive directors of the Bank attended the meetings of the Board of Directors and specialized committees and actively expressed their opinions. They also expressed their opinions and provided guidance to the management personnel by means of the workshops and seminars. Two of them assumed the offices of the chairman of the Audit and Related Party Transactions Control Committee and the chairman of the Nomination and Remuneration Committee, and they have accounted for the majority in both committees.

The Bank has formulated the Independent Directors' Working System on Annual Report, which was approved by the thirteenth meeting of the first Board.

Decision of Independent Non-Executive Directors on Undertakings Made By CITIC Group and CIFH in the Non-competition Deed

The independent non-executive directors of the Bank have made decision on the non-competition undertaking of CITIC Group and CIFH, and confirmed that CITIC Group and CIFH have complied with the Non-competition Deed. Both CITIC Group and CIFH made declarations to the Bank to confirm their compliance with the Non-competition Deed entered into with the Bank on 13 March 2007.

Statement of Independence from the Controlling Shareholder

The Bank is independent from the controlling shareholder in business operation, personnel independence, assets, corporate structure and accounting practice. We have our own business separate from that of our controlling shareholder and have exercised independent operation.

From the perspective of business operation, the Bank has a whole set of business and has the ability to operate independently. The Bank has carried out its business that was within the Bank's operation scope independently, and has not been interfered with or controlled by the controlling shareholder or other affiliated parties. There was also no adverse impact on the Bank to operate its business independently due to the connected relationship with the controlling shareholder and other connected parties.

From the perspective of personnel independence, the Bank has established independent personnel and remuneration management system. Except for the president of the Bank who has also served as the executive director of CITIC Group and deputy general manager, director of CIFH and director of CITIC Ka Wah Bank, other senior management have not served any positions in the controlling shareholder and other companies controlled by it; the financial personnel have not served any positions in the controlling shareholder and other companies controlled by it.

From the perspective of assets, the Bank has the ownership of the land and properties, as well as intellectual properties such as trademarks and domain names relevant to the operation of our business.

From the perspective of accounting practice, we have established an independent Accounting Department, carried out independent accounting recording system and financial management system, and made independent financial decisions. We have legally opened our own account, and have not shared account with the controlling shareholder. When controlling shareholder applied to open a bank account in the Bank, they should follow the procedures and requirements set by the Bank that apply to all other third parties, the account and fund of such controlling shareholder are separated from that of the Bank.

From the perspective of corporate structure, we have established the Shareholders' General Meeting, Board of Directors, and Board of Supervisors, as well as other operational and management departments in accordance with needs of the Bank in carrying out the business. The Bank exercise its discretion in the operation and management of business, and there is no mix of corporate structure with that of the controlling shareholder.

Compliance with the Code on Corporate Governance Practices of the Listing Rules by Hong Kong Stock Exchange

The Bank endeavors to establish a good corporate governance mechanism, and believes that it is crucial to adopt an international leading corporate governance to safeguard the rights and interests of shareholders. The Bank has organized the corporate governance structure consisting of the Board of Directors, Board of Supervisors and senior management, based on which, it has established and formed a set of integrated internal control system. The structure of internal control management of the Bank consists of three levels, namely the decision-making level, the development and execution level and the supervision and appraisal level. This structure has integrated the leadership of principal leaders of the Bank at various levels and functional departments and the participation of all staff of the Bank.

The Bank has been in compliance with the provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Listing Rules except for the following deviation:

According to A.1.3 of the "CG Code", a 14-day notice shall be given for each regular Board Meeting, whereas a 10-day notice to directors and supervisors is prescribed in Article 167 of the articles of associations. We adopted the 10-day prior notice for regular Board Meeting in the articles of association of the Bank because it is held that 10-day notice is sufficient according to PRC law.

Given the changes in outside business environment, regulatory requirements, and the business scope and scale of the Bank, the efforts on the improvement of internal control of the Bank are endless. The Bank will follow the requirements of external regulatory authorities on listed companies, and continuously optimize its internal control management according to the standards of world's leading banks.

Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers

The Bank has adopted Appendix 10 of the Hong Kong Listing Rules, i.e. Model Code for Securities Transactions by Directors of Listed Issuers, to regulate the securities transactions conducted by Directors and Supervisors. The Bank had specially inquired all Directors and Supervisors on this issue, and all Directors and Supervisors have confirmed that they have complied with provisions set out in the said Model Code throughout the reporting period.

Employment or Dismissal of External Auditors

As approved by the 2006 Annual Shareholders' General Meeting, the Bank employed KPMG Huazhen as its domestic accounting firm and KPMG as its overseas accounting firm for the year 2007. Ever since the Bank's IPO auditing in 2006, the two firms have been serving as the Bank's legal auditors.

Within the reporting period, the Bank also incurred approximately RMB73 million for services provided by KPMG and KMPG Huazhen in respect of the IPO and listing of the Bank's shares in Hong Kong Stock Exchange. This amount has been charged to the capital reserve account.

Within the reporting period, the Bank (including its overseas subsidiaries) paid a total amount of RMB8.2 million (including but not limited to the reimbursement of travel, accommodation and transportation expenses, communications and other miscellaneous spending) to KPMG and KPMG Huazhen for their service provided on the auditing of the Bank's financial statements, in which RMB3 million is for the review of the Interim Report, RMB5 million for the auditing of the Annual Report, and RMB200,000 for auditing overseas subsidiaries.

Except for the above-mentioned IPO service fees, the Bank has not paid any material non-audit service fees to KPMG.

Management of Investor Relations

During the reporting period, the Bank successfully exhibited to investors the rapid development and huge potential for growth of such areas as its business operations, risk management and integrated operations through the use of communication activities such as road shows and investor introductory meetings, thereby successfully achieving its simultaneous listing in Shanghai and Hong Kong.

The Bank has placed emphasis on the management of investor relations, and has taken the following actions:

System Building

The Bank reinforced its system building regarding the investor relations management, which further clarified the purpose, principles, contents, responsibilities and methods of managing investor relations to provide guidance and to regulate investor relations management activities.

Management Team

Since its establishment, the Office of the Board of Directors has organized an Investor Relations Department to be responsible for the overall organizational planning and coordination of managing investor relations and information disclosure.

Comprehensive Communication Platform

The Bank has made full use of modern information technologies to advance the building of its investor relations platform. It has built a comprehensive communication platform, which includes networks, a specialized investors' service line and fax, etc., to ensure that the investors and analysts enquiries can be answered promptly.

In future, the Bank will continue to improve its investor relations management, using domestic and overseas investor relations management expertise as reference to optimise its communication and interaction with domestic and foreign investors, to safeguard the legitimate rights and interests of the Bank's investors and to create greater value for its investors.

Information Disclosure

The Bank disclosed its information in compliance with the securities regulatory requirements of the places of listing and trading of the Bank's securities to publish various regular reports and announcements to ensure the disclosure of information in a prompt, fair, accurate, authentic and complete manner, and to safeguard legitimate interests of investors and other parties concerned. Since the Bank has simultaneously listed in Hong Kong Stock Exchange and Shanghai Stock Exchanges, the Bank will make sure it applies the more stringent disclosure requirements of both the Stock Exchange to its disclosure of information to ensure that an equal treatment to all investors are given. In order to promote the system building of information disclosure and to further enhance its transparency, the Bank has enacted *The Regulatory Measures on Information Disclosure of China CITIC Bank* according to various securities regulatory requirements of the places of listing, which was passed by the Board of Directors and which defined the content, style, procedure, and management of information disclosure.

Significant Events

Particulars of A share and H share listing

On 27 April 2007, the Bank was successfully listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange simultaneously. A total of 2,301,932,654 A shares and 5,618,300,000 H shares (including the state-owned shares that CITIC Group transferred to the National Council for Social Security Fund and the anti-dilution right and the top-up right exercised respectively by BBVA and CIFH) were issued as part of the initial public offering. Following the listing, the Bank had 39,033,344,054 shares in total in its share capital, comprising 26,631,541,573 A shares and 12,401,802,481 H shares. The issue prices for A shares and H shares are RMB5.80 and HK$ 5.86 respectively, which equated to the same price upon the adjustment of exchange rate.

Funds raised from the initial public offering of A shares and H shares (before deduction of listing costs) were RMB45.818 billion in total, RMB13.351 billion of which was raised by A shares, and about RMB32,467 billion from H shares if denominated in RMB.

Material Merger and Acquisition, Sales or Restructuring of Assets

Save and except as disclosed, the Bank did not have material merger and acquisition, sales or restructuring of assets during the reporting period.

Material Contract and Its Performance

During the reporting period, the Bank did not have material assets business with other companies to custody, contract or lease its assets, and did not entrust other companies to custody, contract or lease its assets.

The guaranty business is one of the off-balance-sheet items in the ordinary course of business of the Bank. During the reporting period, the Bank did not have any material guaranties that need to be disclosed except for the financial guarantee services within the approved business scope of the Bank.

Significant Related Party Transactions

When entering into related party transactions, the Bank only entered into such transactions on normal commercial terms, the terms that are no more favorable to the related parties than the terms available to independent third parities of the same kind of transactions.

At the end of the reporting period, the loan balance provided by the Bank to related parties was RMB2.797 billion, increased by 23.05% from that of the beginning of the year, accounting for 0.48% of the total loan amount of the Bank. The risk category of the loan granted to the related parties is rated as normal, the loan amount, categories and quality of which would not have material impact on the normal operation of the Bank. The following table sets forth the loans granted by the Bank to the shareholders holding 5% or more of the shares of the Bank:

Unit: in millions of RMB

Name of the shareholder	Percentage of shareholding	Loan balance as of 31 December 2007	Loan balance as of 31 December 2006
CITIC Group	62.33%	380	540
CIFH	15.00%	0	0

At the end of the reporting period, there was no credit balance amount granted to a single connected party or all connected parties that has exceeded the ratios as prescribed in the *Administrative Measures For the Connected Transaction between the Commercial Banks and Their Insiders or Shareholders*; there was also no capital exchange and appropriation occurred which violated the provisions of No. 56 [2003] and No. 120 [2005] issued by CSRC.

At the end of the reporting period, the loan balance between the Bank and its biggest shareholder, CITIC Group and its affiliated companies was RMB2.797 billion, accounting for 0.48% of the total loan amount of the Bank. The related party loans between the Bank and CITIC Group and its affiliated companies had no adverse impact on the operation and financial situation of the Bank.

Please refer to "39 Related Parties" in Notes to the Financial Statements for details.

Material Litigation and Arbitration

The Bank has been involved in several lawsuits during its daily operation. Most of these lawsuits were sought by the Bank to enforcing loan repayment. Besides, there were also lawsuits regarding disputes with clients. Up to 31 December, 2007, the Bank was involved in 49 lawsuits with the disputed amount exceeding RMB30 million (either as plaintiff or defendant), with a total disputed amount of RMB2.49 billion; there are 40 unsettled lawsuits (regardless of the disputed amount) in which the Bank acted as defendants, with a total dispute amount of RMB214 million.

The management of the Bank holds that such litigations would not have any material impact on the financial situation of the Bank.

Shareholding in Other Companies

As of the end of reporting period, the following table sets out the shareholding of the Bank in other companies:

Name of object company	Initial investment amount (RMB)	Number of shares held (shares)	Shareholding percentage	Book value at the end of the period	Income during reporting period	Owner's equity changed during reporting period	Financial accounting subject	Source of investment
China UnionPay Co., Ltd.	70,000,000.00	87,500,000	4.24%	113,750,000.00	2,870,000.00	—	Long-term equity investment	Purchase in Cash

Punishment and Remedial Actions of the Bank, Board of Directors, Directors and Senior Management

During the reporting period, neither the Bank, the Board of Directors, any Directors nor Senior Management was subject to any investigations of relevant authorities, coercive measures of justice and discipline inspection departments, transfer to justice authorities or criminal liabilities, investigation, administrative punishment from the CSRC, banning the entry to securities markets, criticism by notice circulation, identification as inappropriate candidate, punishment by other administrative departments or was the subject of a public reprimand from any stock exchanges.

Undertakings of the Bank or Its Shareholders Holding More Than 5% Shares in the Bank

During the reporting period, shareholders holding more than 5% shares in the Bank included CITIC Group and CIFH. Shares of the Bank held by CITIC Group are A shares, which could be converted into H shares upon the approval of the CSRC. The CSRC had approved CITIC Group to convert not more than 10% of outstanding shares of the Bank into H shares after the first anniversary of the Bank becoming listed on the Hong Kong Stock Exchange. Shares in the Bank held by CIFH are H shares.

CITIC Group has undertaken that within 36 months after the Bank's A shares were traded on the Shanghai Stock Exchange, it will not transfer or entrust others to manage the A shares held in the Bank directly or indirectly, nor will it offer A shares to the Bank for acquisition. A shares in the Bank held by CITIC Group to be converted into H shares upon the consent of China Securities Regulatory Commission or other securities regulatory authorities authorized by the State Council are not subject to the restriction of 36-month lock-up period. CITIC Group has agreed to sell 52,892,289 shares to BBVA after the first anniversary of the global offering of the Bank, representing 0.17% of outstanding shares of the Bank immediately prior to the global offering. BBVA was granted a call option to purchase from CITIC Group such number of shares, representing 4.9% of the outstanding shares of the Bank immediately after the relevant call option closing, or as shall result in the aggregate shareholding percentage of BBVA to be increased to 9.9% of the outstanding shares of the Bank immediately after the relevant call option closing, whichever is greater. The call option is exercisable one year after the date on which dealings in our H shares commence on the Hong Kong Stock Exchange.

CIFH has undertaken that within one year after the listing of the Bank, it will not transfer or entrust others to manage the shares directly or indirectly held by it in the Bank, nor will it offer H shares to the Bank for acquisition.

The Bank is not aware of any incompliance with the above undertakings by CITIC Group and CIFH. Except as stated above, the Bank or shareholders holding more than 5% shares in the Bank have not made undertakings that might have significant adverse influence on the business results and financial situation of the Bank.

Fulfillment of Profit Forecast

The Bank made profit forecast in the IPO prospectus that "By the time of 31 December 2007, the net profit attributable to the shareholders will be not less than RMB5.7 billion". At the end of the reporting period, the net profit of the Bank was RMB8.322 billion, a 115.71% increase compared with last year, which has exceeded the forecast. The reasons could be attributed to the fast growth of the asset scale, the significant increase of net interest margin, the fast growth of non-interest income and the reduction of cost to income ratio.


Chase a
risk-adjusted
return.

Independent Auditor's Report

Independent auditor's report to the shareholders of China CITIC Bank Corporation Limited

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of China CITIC Bank Corporation Limited (the "Bank") and its subsidiaries (collectively the "Group") set out on pages 144 to 263, which comprise the consolidated and Bank balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity, the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Bank are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Bank and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong,

26 March 2008

Consolidated Income Statement

For the year ended 31 December 2007
(Expressed in millions of Renminbi unless otherwise stated)

	Note	2007	2006
Interest income		**41,494**	28,444
Interest expense		**(15,324)**	(11,971)
Net interest income	4	**26,170**	16,473
Fee and commission income	5	**2,365**	965
Fee and commission expense		**(285)**	(206)
Net fee and commission income		**2,080**	759
Net trading (loss)/gain	6	**(834)**	454
Net gain from investment securities	7	**284**	45
Other operating income		**255**	196
Operating income		**27,955**	17,927
General and administrative expenses	8	**(11,795)**	(9,259)
Provisions for impairment losses on			
— loans and advances to customers	17(b)	**(2,860)**	(1,481)
— others	9	**(128)**	(185)
Profit before taxation		**13,172**	7,002
Income tax	13	**(4,850)**	(3,144)
Net profit		**8,322**	3,858
Attributable to:			
Shareholders of the Bank		**8,322**	3,858
Minority interests		**—**	—
Net profit		**8,322**	**3,858**
Profit appropriations	28	**726**	3,000
Earnings per share attributable to shareholders of the Bank			
— Basic and diluted (Renminbi)	14	**0.23**	0.12

The notes on pages 150 to 263 form part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2007
(Expressed in millions of Renminbi unless otherwise stated)

	Note	**31 December 2007**	31 December 2006
Assets			
Cash and balances with central bank	15	**209,399**	90,620
Amounts due from banks and other financial institutions	16	**55,851**	43,250
Loans and advances to customers	17	**568,686**	453,381
Trading assets	18(a)	**6,500**	4,725
Derivatives	34	**2,049**	452
Investment securities	19	**153,348**	99,699
Property and equipment	20	**8,948**	8,745
Deferred tax assets	21	**954**	2,210
Other assets	22	**5,451**	3,641
Total assets		**1,011,186**	706,723
Liabilities			
Amounts due to central bank		**415**	201
Amounts due to banks and other financial institutions	23	**112,587**	36,166
Trading liabilities	18(b)	**—**	79
Derivatives	34	**1,914**	576
Deposits from customers	24	**787,211**	618,412
Current tax liabilities		**3,444**	1,230
Deferred tax liabilities	21	**13**	141
Other liabilities and provisions	25	**9,511**	6,224
Subordinated debts/bonds issued	26	**12,000**	12,000
Total liabilities		**927,095**	675,029
Equity			
Share capital	27	**39,033**	31,113
Reserves	27	**41,138**	(303)
Retained earnings		**3,915**	879
Total equity attributable to shareholders of the Bank		**84,086**	31,689
Minority interests		**5**	5
Total equity		**84,091**	31,694
Total equity and liabilities		**1,011,186**	706,723

Approved and authorised for issue by the board of directors on 26 March 2008.

Kong Dan	**Chen Xiaoxian**	**Cao Guoqiang**	**Wang Kang**
Chairman	*President*	*Assistant President*	*Head of Budget and Finance Department*

The notes on pages 150 to 263 form part of these financial statements.

Balance Sheet of The Bank

As at 31 December 2007
(Expressed in millions of Renminbi unless otherwise stated)

	Note	**31 December 2007**	31 December 2006
Assets			
Cash and balances with central bank		**209,390**	90,620
Amounts due from banks and other financial institutions		**56,365**	43,718
Loans and advances to customers		**568,479**	453,204
Trading assets		**6,500**	4,725
Derivatives		**2,049**	452
Investment securities		**153,017**	99,335
Investment in subsidiaries	2(c)	**33**	33
Property and equipment		**8,909**	8,717
Deferred tax assets		**954**	2,210
Other assets		**5,452**	3,637
Total assets		**1,011,148**	706,651
Liabilities			
Amounts due to central bank		**415**	201
Amounts due to banks and other financial institutions		**112,587**	36,166
Trading liabilities		**—**	79
Derivatives		**1,914**	576
Deposits from customers		**787,214**	618,416
Current tax liabilities		**3,444**	1,230
Deferred tax liabilities		**4**	140
Other liabilities and provisions		**9,492**	6,215
Subordinated debts/bonds issued		**12,000**	12,000
Total liabilities		**927,070**	675,023
Equity			
Share capital		**39,033**	31,113
Reserves		**41,151**	(351)
Retained earnings		**3,894**	866
Total equity		**84,078**	31,628
Total equity and liabilities		**1,011,148**	706,651

Approved and authorised for issue by the board of directors on 26 March 2008.

Kong Dan	**Chen Xiaoxian**	**Cao Guoqiang**	**Wang Kang**
Chairman	*President*	*Assistant President*	*Head of Budget and Finance Department*

The notes on pages 150 to 263 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007
(Expressed in millions of Renminbi unless otherwise stated)

	Note	Share capital	Capital reserve	Statutory surplus reserve fund	General reserve	Investment revaluation reserve	Properties revaluation reserve	Retained earnings	Exchange difference	Minority interests	Total equity
As at 1 January 2007		**31,113**	**(391)**	**—**	**—**	**(14)**	**102**	**879**	**—**	**5**	**31,694**
Share issued	27(a)	**7,920**	**36,916**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**44,836**
Net profit		**—**	**—**	**—**	**—**	**—**	**—**	**8,322**	**—**	**—**	**8,322**
Net change in fair value of available-for-sale investments		**—**	**—**	**—**	**—**	**(76)**	**—**	**—**	**—**	**—**	**(76)**
Realised on disposal of available-for-sale investments		**—**	**—**	**—**	**—**	**(8)**	**—**	**—**	**—**	**—**	**(8)**
Revaluation gain of bank premises		**—**	**—**	**—**	**—**	**—**	**54**	**—**	**—**	**—**	**54**
Appropriations to statutory surplus reserve fund and general reserve		**—**	**—**	**829**	**3,731**	**—**	**—**	**(4,560)**	**—**	**—**	**—**
Exchange difference		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(5)**	**—**	**(5)**
Profit appropriation	28	**—**	**—**	**—**	**—**	**—**	**—**	**(726)**	**—**	**—**	**(726)**
As at 31 December 2007		**39,033**	**36,525**	**829**	**3,731**	**(98)**	**156**	**3,915**	**(5)**	**5**	**84,091**

	Note	Share capital/ owners' equity	Capital reserve	Statutory surplus reserve fund	Gerneral reserve	Investment revaluation reserve	Properties revaluation reserve	Retained earnings	Exchange difference	Minority interests	Total equity
As at 1 January 2006		26,661	—	—	—	181	2,772	(6,394)	—	5	23,225
Capital injection		7,400	—	—	—	—	—	—	—	—	7,400
Net profit		—	—	—	—	—	—	3,858	—	—	3,858
Net change in fair value of available-for-sale investments		—	—	—	—	(14)	—	—	—	—	(14)
Revaluation gain of bank premises		—	—	—	—	—	123	—	—	—	123
Transfer of revaluation gain realised through disposal		—	—	—	—	—	(21)	21	—	—	—
Transfer of welfare payable to capital reserve	27(b)	—	102	—	—	—	—	—	—	—	102
Profit appropriation		—	—	—	—	—	—	(3,000)	—	—	(3,000)
Shares issued upon incorporation and elimination of owner's capital, reserves and accumulated losses as at 31 December 2005		(2,948)	(493)	—	—	(181)	(2,772)	6,394	—	—	—
As at 31 December 2006		31,113	(391)	—	—	(14)	102	879	—	5	31,694

The notes on pages 150 to 263 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2007
(Expressed in millions of Renminbi unless otherwise stated)

	Note	**2007**	2006
Operating activities			
Profit before taxation		**13,172**	7,002
Adjustments for:			
— Revaluation loss/(gain) on investments and derivatives		**812**	(78)
— Net loss on disposal of fixed assets		**2**	2
— Unrealised foreign exchange loss		**626**	49
— Impairment losses		**2,988**	1,666
— Depreciation and amortisation		**780**	708
— Interest expense on subordinated debts/bonds issued		**588**	427
		18,968	9,776
Changes in operating assets and liabilities:			
Increase in balances with central bank		**(113,620)**	(897)
Decrease/(increase) in amounts due from banks and other financial institutions		**215**	(15,668)
Increase in loans and advances to customers		**(114,861)**	(96,886)
Increase in other operating assets		**(3,396)**	(901)
Increase/(decrease) in amounts due to central bank		**214**	(39)
Increase in amounts due to banks and other financial institutions		**76,421**	8,145
Increase in deposits from customers		**168,799**	87,839
Income tax paid		**(1,376)**	(1,102)
(Decrease)/increase in other operating liabilities		**(1,845)**	2,159
Net cash flows from operating activities		**29,519**	(7,574)

The notes on pages 150 to 263 form part of these financial statements.

	Note	2007	2006
Investing activities			
Proceeds from disposal and redemption of investments		**254,118**	211,648
Proceeds from disposal of property and equipment, land use rights, and other assets		**62**	63
Payments on acquisition of investments		**(287,898)**	(230,133)
Payments on acquisition of property and equipment, and land use rights		**(1,408)**	(740)
Cash from equity investment income		**3**	—
Net cash flows from investing activities		**(35,123)**	(19,162)
Financing activities			
Proceeds from share issuance, including interest income received and net of cost of issuing shares paid		**44,843**	—
Proceeds from capital injection		**—**	7,400
Interest paid on subordinated debts/bonds issued		**(551)**	(298)
Proceeds from debts issue		**—**	6,000
Profit paid to CITIC Group		**(726)**	(3,000)
Net cash flows from financing activities		**43,566**	10,102
Net increase/(decrease) in cash and cash equivalents		**37,962**	(16,634)
Cash and cash equivalents as at 1 January		**53,027**	70,130
Effect of exchange rate changes on cash and cash equivalents		**(444)**	(469)
Cash and cash equivalents as at 31 December	29	**90,545**	53,027
Cash flows from operating activities include:			
Interest received		**40,152**	29,135
Interest paid, excluding interest expense on subordinated debts/bonds issued		**(13,864)**	(12,009)

The notes on pages 150 to 263 form part of these financial statements.

(Expressed in millions of Renminbi unless otherwise stated)

1 Background

China CITIC Bank Corporation Limited (the "Bank" or "CNCB") is a joint stock company incorporated in the People's Republic of China (the "PRC" or "Mainland China") on 31 December 2006 pursuant to the restructuring of China CITIC Bank (previously known as "CITIC Industrial Bank"). The registered office of the Bank is located at Block C, Fuhua Mansion, 8 Chaoyangmen Beidajie, Dongcheng District, Beijing, China.

In April 2007, the Bank's A shares and H shares were listed in the Shanghai Stock Exchange and Hong Kong Stock Exchange respectively.

The principal activities of the Bank and its subsidiaries (collectively the "Group") are the provision of corporate and personal banking services, conducting treasury business and corresponding banking businesses, and the provision of asset management, entrusted lending and custodian services.

The consolidated financial statements for the year ended 31 December 2007 comprises the Bank and its subsidiaries.

For the purpose of these financial statements, Mainland China excludes the Hong Kong Special Administrative Region of the PRC ("Hong Kong"), the Macau Special Administrative Region of the PRC ("Macau") and Taiwan.

2 Significant accounting policies

(a) Statement of compliance

The financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRS") and its interpretations promulgated by the International Accounting Standards Board (the "IASB"), and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The IASB has issued certain new and revised IFRSs that are first effective for the current accounting period of the Group and the Bank. Note 3 provides information on the impact resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements. The Group has not adopted new standards and interpretations not yet effective for the current account period (see Note 3).

2 Significant accounting policies (Continued)

(a) Statement of compliance (Continued)

The accounting policies set out below have been applied consistently by the Group in the preparation of these financial statements.

(b) Basis of preparation of the financial statements

The financial statements are presented in Renminbi ("RMB"), which is the Group's functional and presentation currency, rounded to the nearest million.

The financial statements are prepared using the historical cost basis, except for the following assets and liabilities which are stated at their fair value: financial assets and financial liabilities at fair value through profit or loss and available-for-sale financial assets, except those for which a reliable measure of fair value is not available; and properties.

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances. The results of such estimates and assumptions form the basis of judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

Judgements made by management in the application of IFRS that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the subsequent period are discussed in Note 38.

2 Significant accounting policies (Continued)

(c) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operational policies of an enterprise so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Bank, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interest that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet and consolidated statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the Bank. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the net profit or loss for the year between minority interests and the equity shareholders of the Bank.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed to the Group has been recovered.

In the Bank's balance sheet, investments in subsidiaries are stated at cost less allowances for impairment losses, if any.

2 Significant accounting policies (Continued)

(d) Foreign currency translations

Foreign currency transactions during the year are translated into Renminbi at the foreign exchange rates ruling at the transaction dates.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Renminbi at the foreign exchange rates ruling at that date. Exchange gains and losses are recognized in the income statement. Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated using the foreign exchange rates at the transaction dates. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated using the foreign exchange rates at the date the fair value is determined.

When the gain or loss on a non-monetary item is recognised directly in equity, any exchange component of that gain or loss is recognised directly in equity, all other foreign exchange differences arising on settlement and translation of monetary and non-monetary assets and liabilities are recognised in the income statement.

The assets and liabilities of the subsidiaries are translated into Renminbi at the foreign exchange rates ruling at the balance sheet date. The revenue, expenses and cash flows of the subsidiaries are translated into Renminbi at rates approximating the foreign exchange rates ruling at the date of the transaction. Foreign exchange differences arising on translation are recognised directly in equity.

(e) Financial instruments

(i) Initial recognition

The Group classifies its financial instruments into different categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred. The categories are: fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets and other financial liabilities.

2 Significant accounting policies (Continued)

(e) Financial instruments (Continued)

(i) Initial recognition (Continued)

Financial assets and financial liabilities are measured initially at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include observable market data. Transaction costs for financial assets and financial liabilities at fair value through profit or loss are expensed immediately.

All financial assets and financial liabilities are recognised in the balance sheet, when and only when the Group, as appropriate, becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets and financial liabilities is recognised using trade date accounting. From this date, any gains and losses arising from changes in fair value of the financial assets or financial liabilities are recorded.

(ii) Categorisation

Fair value through profit or loss

Financial assets and financial liabilities at fair value through profit or loss include those financial assets and financial liabilities held for trading and those designated by the Group upon recognition as at fair value through profit or loss.

Financial assets and financial liabilities are classified as held for trading if they are acquired or incurred principally for the purpose of short term profit taking. All derivatives not qualified for hedging purposes are included in this category and are carried as assets when their fair value is positive and as liabilities when their fair value is negative; and

2 Significant accounting policies (Continued)

(e) Financial instruments (Continued)

(ii) Categorisation (Continued)

Fair value through profit or loss (Continued)

Financial assets and financial liabilities are designated at fair value through profit or loss upon initial recognition when:

— the financial assets or financial liabilities are managed, evaluated and reported internally on a fair value basis;

— the designation eliminates or significantly reduces an accounting mismatch in the gain and loss recognition arising from the difference in measurement basis of the financial assets or financial liabilities;

— the financial asset or financial liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract; or

— the separation of the embedded derivatives from the financial instrument is prohibited.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market, other than (a) those that the Group intends to sell immediately or in the near term, which will be classified as held for trading; (b) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or (c) those where the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale. Loans and receivables mainly comprise loans and advances to customers and placements with banks and financial institutions.

2 Significant accounting policies (Continued)

(e) Financial instruments (Continued)

(ii) Categorisation (Continued)

Held-to-maturity financial assets

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, other than those that meet the definition of loans and receivables, or that the Group designated as at fair value through profit or loss or as available-for-sale:

Available-for-sale financial assets

Available-for-sale assets are non-derivative financial assets that are designated as available for sale or are not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity assets.

Other financial liabilities

Financial liabilities, other than trading liabilities and those designated at fair value through profit or loss, are measured at amortised cost using the effective interest rate method.

(iii) Subsequent measurement

Subsequent to initial recognition, financial assets and financial liabilities are measured at fair value, without any deduction for transaction costs that may occur on sale or other disposal except for loans and receivables, held-to-maturity financial assets and financial liabilities not designated at fair value through profit or loss, which are measured at amortised cost using the effective interest rate method. Financial assets and financial liabilities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less impairment losses, if any.

2 Significant accounting policies (Continued)

(e) Financial instruments (Continued)

(iii) Subsequent measurement (Continued)

Gains and losses from changes in the fair value of financial instruments at fair value through profit or loss are included in the income statement when they arise. Gains and losses arising from a change in the fair value of available-for-sale assets are recognised directly in equity, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised at which time the cumulative gains or losses previously recognised in equity will be recognised in the income statement. For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in the income statement when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

(iv) Fair value measurement principles

The fair value of financial assets is based on their quoted market price in an active market at the valuation date without any deduction for transaction costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices. A quoted market price is from an active market where price information is readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and that price information represents actual and regularly occurring market transactions on an arm's length basis.

If a quoted market price is not available, the fair value of the financial assets is established using valuation techniques that provide a reliable estimate of prices which could be obtained in actual market transactions. Valuation techniques applied include recent arm's length market transactions between knowledgeable and willing parties, referenced to the fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. Periodically the Group calibrates the valuation techniques and tests them for validity. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the balance sheet date applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on market data at the balance sheet date.

2 Significant accounting policies (Continued)

(e) Financial instruments (Continued)

(iv) Fair value measurement principles (Continued)

In estimating the fair value of a financial asset and financial liability, the Group considers all factors, including but not limited to interest rate, credit risk, foreign currency exchange price and market volatility, that are likely to affect the fair value of the financial asset and financial liability.

The Group obtains market data in the same market where the financial instrument was originated or purchased.

(v) Derecognition

Financial assets are derecognised on the date when the contractual rights to the cash flows expire or substantially all the risks and rewards of ownership are transferred. Financial liabilities are derecognised on the date when the obligations specified in the contracts are discharged, cancelled or expired. The Group uses the weighted average method to determine realised gains and losses to be recognised in profit or loss on derecognition.

(vi) Impairment

Financial assets are assessed at each balance sheet date to determine whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The carrying amount of assets is reduced through the use of an allowance for impairment losses and a corresponding provision for impairment losses is recognised in the income statement.

Losses expected as a result of future events, no matter how likely, are not recognised because the necessary loss event has not yet occurred.

2 Significant accounting policies (Continued)

(e) Financial instruments (Continued)

(vi) Impairment (Continued)

— *Loans and receivables*

The Group uses two methods of assessing impairment losses: those assessed individually and those assessed on a collective basis.

(vi-1) Individual impairment allowances

All loans and advances in the corporate lending portfolios are considered individually significant and assessed individually for impairment. Individually impaired loans and advances are graded at a minimum at substandard (see Note 35(a) for the definitions of the loan classification).

Loans and advances which are assessed individually for impairment are evaluated in the light of objective evidence of loss events, for example:

— Significant financial difficulty of the borrower;

— A breach of contract, such as default or delinquency in interest payments or principal repayments;

— For economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Group would not otherwise consider; or

— It becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

It may not be possible to identify a single, discrete event that caused the impairment but it may be possible to identify impairment through the combined effect of several events.

2 Significant accounting policies (Continued)

(e) Financial instruments (Continued)

(vi) Impairment (Continued)

— *Loans and receivables (Continued)*

(vi-1) Individual impairment allowances (Continued)

— Loans and receivables. The individual impairment allowance is based upon management's best estimate of the present value of the cash flows which are expected to be received discounted at the original effective interest rate. In estimating these cash flows, management makes judgments about the borrower's financial situation and the net realisable value of any underlying collateral or guarantees in favour of the Group. Each impaired asset is assessed on its merits.

Cash flows relating to short term loans and receivables are not discounted if the effect of discounting is immaterial.

(vi-2) Collective impairment allowances

Loans and advances, which include the following, are assessed for impairment losses on a collective basis:

— All homogeneous groups of loans (representing all the retail loan portfolios) which are all considered not individually significant

— Individually assessed loans with no objective evidence of impairment on an individual basis

For the purpose of collective assessment, assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms.

2 Significant accounting policies (Continued)

(e) Financial instruments (Continued)

(vi) Impairment (Continued)

— *Loans and receivables (Continued)*

(vi-2) Collective impairment allowances (Continued)

Loans and advances assessed collectively for impairment are assessed in the light of objective evidence of impairment that there is observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of loans and advances since the initial recognition of those assets, including:

— adverse changes in the payment status of borrowers in the Group; or

— national or local economic conditions that correlate with defaults on the assets in the Group.

Homogeneous groups of loans not considered individually significant

For homogeneous groups of loans, including all of the retail lending portfolio, that are not considered individually significant, the Group adopts a flow rate methodology to assess impairment losses on a collective basis.

This methodology utilises a statistical analysis of historical trends of probability of default and amount of consequential loss, as well as an evaluation of current economic conditions that may have a consequential impact on inherent losses in the portfolio.

2 Significant accounting policies (Continued)

(e) Financial instruments (Continued)

(vi) Impairment (Continued)

— *Loans and receivables (Continued)*

(vi-2) Collective impairment allowances (Continued)

Individually assessed loans with no objective evidence of impairment on an individual basis

Loans which are individually significant and therefore have been individually assessed but for which no impairment can be identified, either due to the absence of any loss events or due to an inability to measure reliably the impact of loss events on future cash flows, are grouped together in portfolios of similar credit risk characteristics for the purpose of assessing a collective impairment loss. This assessment covers those loans and advances that were impaired at the balance sheet date but which will not be individually identified as such until some time in the future.

The collective impairment loss is assessed after taking into account:

— Historical loss experience in portfolios of similar risk characteristics;

— The emergence period between a loss occurring and that loss being identified; and

— The current economic and credit environments and whether in management's experience these indicate that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience.

The emergence period between a loss occurring and its identification is determined by management based on the historical experience of the markets where the Group operates.

2 Significant accounting policies (Continued)

(e) Financial instruments (Continued)

(vi) Impairment (Continued)

— *Loans and receivables (Continued)*

(vi-2) Collective impairment allowances (Continued)

Individually assessed loans with no objective evidence of impairment on an individual basis (Continued)

Impairment losses recognised on a collective basis represent an interim step pending the identification of impairment losses on individual assets (which are subject to individual assessment) in the pool of financial assets that are collectively assessed for impairment.

As soon as information is available that specifically identifies objective evidence of impairment on individual assets in a pool, those assets are removed from the pool of financial assets. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment for impairment.

Any subsequent changes to the amounts and timing of the expected future cash flows compared to the prior estimates that can be linked objectively to an event occurring after the write-down, will result in a change in the impairment allowances on loans and receivables and be charged or credited to the income statement.

When the borrower or the guarantor fails to repay the loan principal and interest, and repossessed assets are received by the Group for recovery of the impaired loans, the carrying value of the impaired loans is adjusted, if necessary, to the estimated fair value of the repossessed assets through impairment allowances. The adjusted carrying value of the impaired loans is transferred to repossessed assets, net of impairment allowances.

2 Significant accounting policies (Continued)

(e) Financial instruments (Continued)

(vi) Impairment (Continued)

— *Loans and receivables (Continued)*

When there is no reasonable prospect of recovery for the loan and the related interest receivables, the loan and the interest receivables as well as impairment allowances are written off.

Loans and receivables with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Renegotiated loans and receivables are subject to ongoing monitoring to determine whether they remained as impaired or past due.

— *Held-to-maturity assets*

For held-to-maturity financial assets, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. (i.e. the effective interest rate computed at initial recognition of these assets). Impairment losses are recognised in the income statement. Held-to-maturity assets with a short duration are not discounted if the effect of discounting is immaterial.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years.

2 Significant accounting policies (Continued)

(e) Financial instruments (Continued)

(vi) Impairment (Continued)

— *Available-for-sale assets*

When a decline in the fair value of an available-for-sale asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in the income statement even though the financial asset has not been derecognised.

The amount of the cumulative loss that is removed from equity and recognised in the income statement is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in the income statement.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed, with the amount of the reversal being recognised in the income statement. Impairment losses recognised in the income statement for an investment in an equity instrument classified as available-for-sale are not reversed through the income statement. Any increase in the fair value of such assets is recognised directly in equity.

For an available-for-sale asset that is not carried at fair value because its fair value cannot be reliably measured, such as an unquoted equity instrument, the amount of any impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

2 Significant accounting policies (Continued)

(e) Financial instruments (Continued)

(vii) Derivative financial instruments

The Group's derivative financial instruments are principally undertaken in response to customers' needs or for the Group's own asset and liability management purposes. The Group also uses derivative financial instruments to hedge its exposure to market risks arising from its investment activities. Derivatives that do not qualify for hedge accounting are accounted for as financial assets and financial liabilities at fair value through profit or loss.

Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the income statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

(viii) Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. The embedded derivatives are separated from the host contract and accounted for as a derivative when (a) the economic characteristics and risks of the embedded derivative are not closely related to the host contract; and (b) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in the income statement.

When the embedded derivative is separated, the host contract is accounted for in accordance with note (i), (ii) and (iii) above.

(f) Repurchase and resale agreements

Assets sold subject to a simultaneous agreement to repurchase them at a certain later date at a fixed price (repurchase agreements) continue to be recognised in the financial statements, and are measured in accordance with the accounting policy for such assets. The proceeds from the sale of the assets are reported as amounts due to central bank, banks or other financial institutions depending on the identity of the counterparty and are carried in the balance sheet at amortised cost.

2 Significant accounting policies (Continued)

(f) Repurchase and resale agreements (Continued)

Assets purchased subject to commitments to resell them at future dates (resale agreement) are not recognised. The amounts paid are accounted for as balances with central bank, amounts due from banks and other financial institutions or loans and advances to customers depending on the identity of the counterparty and are carried in the balance sheet at amortised cost.

The difference between the purchase and resale consideration, and that between the sale and repurchase consideration, are amortised over the period of the respective transaction using the effective interest method and are included in interest income or expense, as appropriate.

(g) Property and equipment

(i) Cost or revaluation

Property and equipment are stated at cost upon initial recognition.

Subsequent to initial recognition, the Group adopts a revaluation policy to carry all classes of property at revaluation, being their fair value at the date of the revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Equipment is stated at cost less accumulated depreciation and impairment losses.

Revaluations are performed with sufficient regularity to ensure that the carrying amount of properties does not differ materially from that which would be determined using fair values at the balance sheet date.

Increases in the carrying amount arising on revaluation of each property are credited to revaluation reserves. Decreases that offset previous increases of the same asset are charged against revaluation reserves; all other decreases are charged to the income statement.

2 Significant accounting policies (Continued)

(g) Property and equipment (Continued)

(i) Cost or revaluation (Continued)

Construction in progress represents property under construction and is stated at cost less impairment losses. Capitalisation of these costs ceases and the construction in progress is transferred to an appropriate class of property and equipment when the asset is substantially ready for its intended use.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

(ii) Subsequent costs

The Group recognises in the carrying amount of an item of property and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense when incurred.

(iii) Depreciation

Depreciation is calculated to write off the cost or revalued value, less residual value if applicable, of property and equipment and is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. The estimated useful lives are as follows:

	Estimated useful lives
Bank premises	30–35 years
Computer equipment and others	5–10 years

No depreciation is provided in respect of construction in progress.

The residual value and useful lives of assets are reviewed, and adjusted if appropriate, as of each balance sheet date.

2 Significant accounting policies (Continued)

(g) Property and equipment (Continued)

(iv) Impairment

The carrying amount of property and equipment is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recognised in the income statement except for property where it is carried at valuation and the impairment loss does not exceed the revaluation surplus for the same asset, in which case it is treated as a revaluation decrease. The recoverable amount is the greater of the net selling price and value in use.

If in a subsequent period the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down or allowances are reversed through the income statement. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in the income statement in prior years.

(v) Disposal and retirement

Gains or losses arising from the disposal or retirement of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of disposal or retirement. In respect of the disposal or retirement of property, any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

2 Significant accounting policies (Continued)

(h) Land use rights

Land use rights are stated at cost less amortisation. Land use rights are amortised on a straight-line basis over the respective periods of grant.

(i) Repossessed assets

In the recovery of impaired loans and advances, the Group may take repossession of assets held as collateral through court proceedings or voluntary delivery of possession by the borrowers. Where it is intended to achieve an orderly realisation and the Group is no longer seeking repayment from the borrower, repossessed assets are reported in "Other assets".

Repossessed assets are initially recognised at the carrying value of the loan principal and interest receivable, net of respective allowances for impairment losses, upon the seizure of these assets in lieu of the rights on the loans and advances and interest receivable. An impairment loss is recognised in the income statement whenever the carrying amount of such an asset exceeds its recoverable amount.

(j) Fiduciary activities

The Group acts in a fiduciary capacity as a custodian, trustee or an agent for customers. Assets held by the Group and the related undertakings to return such assets to customers are excluded from the balance sheet as the risks and rewards of the assets reside with the customers.

Entrusted lending is one of the principal fiduciary activities of the Group. The Group enters into entrusted loan agreements with a number of customers, whereby the customers provide funding (the "entrusted funds") to the Group, and the Group grants loans to third parties (the "entrusted loans") at the instruction of the customers. As the Group does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, entrusted loans and funds are recorded as off-balance sheet items at their principal amounts and no impairment assessments are made for these entrusted loans.

2 Significant accounting policies (Continued)

(k) Provisions and contingent liabilities

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(l) Employee benefits

(i) Employment benefits

Salaries and bonuses, housing benefits and costs for social security benefits are accrued in the year in which the services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

2 Significant accounting policies (Continued)

(l) Employee benefits (Continued)

(ii) Post employment benefits

Post employment benefits of the Group mainly include retirement benefits and supplementary retirement benefits.

Obligations for contributions to defined contribution retirement schemes are recognised as an expense in the income statement as incurred for current employees.

The Group's obligations in respect of supplementary retirement benefits are calculated by estimating the amount of future benefits that the Group is committed to pay to the employee after their retirement using actuarial techniques. Such benefits are discounted to determine their present values. The discount rate is the yield on PRC government bonds at the balance sheet date, the maturity dates of which approximate to the terms of the Group's obligations. In calculating the Group's obligations, any actuarial gains and losses are recognised in the income statement immediately in the same financial year.

(m) Income recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) Interest income

Interest income for all interest-bearing assets is recognised in the income statement using the effective interest method or an applicable floating rate. Interest income includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

2 Significant accounting policies (Continued)

(m) Income recognition (Continued)

(i) Interest income (Continued)

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the Group estimates cash flows by considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest on the impaired financial assets is recognised using the rate of interest used to discount future cash flows ("unwinding of discount") for the purpose of measuring the related impairment loss.

(ii) Fee and commission income

Fee and commission income is recognised in the income statement when the corresponding service is provided.

Origination or commitment fees received by the Group which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. If the commitment expires without the Group making a loan, the fee is recognised as revenue on expiry.

(iii) Dividend

Dividend is recognised in the income statement on the date when the Group's right to receive payment is established.

2 Significant accounting policies (Continued)

(n) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet when, and only when, the Group has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

(o) Cash and cash equivalents

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash, non-restricted balances with central bank, banks and other financial institutions, and short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(p) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the terms of the leases.

(q) Income tax

Income tax in the income statement comprises current tax and movements in deferred tax balances. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date. Deferred tax assets also arise from unused tax losses and unused tax credits.

2 Significant accounting policies (Continued)

(q) Income tax (Continued)

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group or the Bank has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Group or the Bank intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

— the same taxable entity; or

— different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(r) Profit appropriations

Profit appropriations are recognised as a liability in the year in which they are approved and declared.

(s) Related parties

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party, exercise significant influence or joint control over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control, common joint control or common significant influence. Related parties may be individuals and other entities.

2 Significant accounting policies (Continued)

(t) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

3 Changes in accounting policy

The IASB has issued a number of new and revised IFRSs and Interpretations that are first effective or available for early adoption for the current accounting period of the Group and the Bank.

There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments. However, as a result of the adoption of IFRS 7, Financial instruments: Disclosures and the amendment to IAS 1, Presentation of financial statements: Capital disclosures, there have been some additional disclosures provided as follows:

As a result of the adoption of IFRS 7, the financial statements include expanded disclosure about the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by IAS 32, Financial instruments: Disclosure and presentation. These disclosures are provided throughout these financial statements, in particular in Note 35.

The amendment to IAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Group's and the Bank's objectives, policies and processes for managing capital. These new disclosures are set out in Note 36.

Both IFRS 7 and the amendment to IAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial instruments.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4 Net interest income

	2007	2006
Interest income arises from:		
Balances with central bank	**1,511**	964
Amounts due from banks and other financial institutions	**2,211**	715
Loans and advances to customers (note (i))		
— corporate loans	**27,025**	19,320
— personal loans	**3,609**	2,397
— discounted bills	**1,932**	1,571
Investments in debt securities (note (ii))	**5,206**	3,477
	41,494	28,444
Interest expense arises from:		
Balance due to central bank	**(6)**	(9)
Amounts due to banks and other financial institutions	**(2,057)**	(745)
Deposits from customers	**(12,673)**	(10,790)
Subordinated debts/bonds issued	**(588)**	(427)
	(15,324)	(11,971)
Net interest income	**26,170**	16,473

Notes: (i) Interest income arising from loans and advances to customers includes interest income accrued on individually assessed impaired loans and advances to customers of RMB221 million for the year ended 31 December 2007 (2006: RMB248 million), which includes interest income on the unwinding of discount of allowances for loan impairment losses of RMB187 million for the year ended 31 December 2007 (2006: RMB210 million) (Note 17(b)).

(ii) Interest income from investments in debt securities is mainly derived from unlisted investments.

5 Fee and commission income

	2007	2006
Commission for wealth management services	**594**	16
Bank card fees	**434**	199
Agency fees and commission (note(i))	**358**	186
Guarantee fees	**295**	215
Consultancy and advisory fees	**269**	45
Settlement fees	**236**	214
Commission for custodian business	**135**	16
Others	**44**	74
Total	**2,365**	965

Note: (i) Agency fees and commission include fees and commission for underwriting bonds and investment funds, agency fees for insurance service and others, and fees from entrusted lending business.

6 Net trading (loss)/gain

	2007	2006
Dealing (loss)/profit		
— debt securities	**(161)**	10
— foreign currencies	**144**	503
— derivatives	**(632)**	(60)
— financial liabilities designated at fair value through profit and loss	**(185)**	1
Total	**(834)**	454

7 Net gain from investment securities

	2007	2006
Net income from sale of available-for-sale securities	**274**	45
Net revaluation gain transferred from equity on disposal	**10**	—
Total	**284**	45

8 General and administrative expenses

	2007	2006
Staff costs		
— salaries, bonuses and staff welfare expenses	**3,882**	2,264
— contributions to defined contribution retirement schemes	**213**	169
— housing fund	**178**	147
— housing allowance	**113**	94
— others	**391**	240
	4,777	2,914
Property and equipment expense		
— depreciation	**645**	621
— rent and property management expenses	**577**	497
— electronic equipment operating expenses	**172**	156
— maintenance	**106**	100
— others	**158**	134
	1,658	1,508
Business tax and surcharges (note (i))	**2,034**	1,398
Management fee to CITIC Group	**—**	750
Amortisation expense	**135**	87
Other general and administrative expenses	**3,191**	2,602
	11,795	9,259

Notes: (i) Business tax of 5% is levied primarily on interest income from loans and advances to customers, and fee and commission income. The surcharges, which include education surcharges and city construction tax, are charged at 3% and between 1% and 7% of business tax paid respectively.

9 Provisions for impairment losses on assets other than loans and advances to customers

	2007	2006
Impairment losses charge/(release) on		
— Off-balance sheet credit commitments	**65**	54
— Investments	**7**	(4)
— Others	**56**	135
Total	**128**	185

10 Directors' and Supervisors' emoluments

The aggregate of the emoluments before individual income tax in respect of the Directors and Supervisors who held office during the year is as follows:

	2007						
	Fees RMB '000	**Salaries RMB '000**	**Discretionary bonus payable RMB '000**	**Sub-total RMB '000**	**Contributions to defined contribution retirement schemes RMB '000**	**(note(ii)) Other benefits in kind RMB '000**	**Total RMB '000**
Executive directors							
Chen Xiaoxian	—	450	5,105	5,555	143	788	6,486
Wu Beiying	—	182	3,574	3,756	106	573	4,435
Non-executive Directors							
Kong Dan	—	—	—	—	—	—	—
Chang Zhenming	—	—	—	—	—	—	—
Wang Chuan	—	—	—	—	—	—	—
Dou Jianzhong	—	—	—	—	—	—	—
Chen Xuduolin	—	—	—	—	—	—	—
Ju Weimin (note (i))	—	—	—	—	—	—	—
Zhang Jijing (note (i))	—	—	—	—	—	—	—
José Ignacio Goirigolzarri (note (i))	—	—	—	—	—	—	—
Independent non-executive Directors							
Bai Zhong En	50	—	—	50	—	—	50
John Dexter Langlois	50	—	—	50	—	—	50
Ai Hongde (note (i))	50	—	—	50	—	—	50
Xie Rong (note (i))	50	—	—	50	—	—	50
Wang Xiangfei	50	—	—	50	—	—	50
Supervisors/ External Supervisors							
Liu Chongming	—	—	—	—	—	—	—
Wang Shuanlin	—	—	—	—	—	—	—
Zhuang Yumin (note (i))	45	—	—	45	—	—	45
Zheng Xuexue (note (i))	—	—	—	—	—	—	—
Guo Ketong	—	—	—	—	—	—	—
Lin Zhengyue	—	115	1,196	1,311	53	135	1,499
Deng Yuewen	—	109	966	1,075	58	126	1,259
Li Gang	—	110	751	861	51	130	1,042
Former Directors and Supervisors resigned in 2007							
Li Qianxin (note (i))	—	—	—	—	—	—	—
Xi Bolun (note (i))	—	—	—	—	—	—	—
	295	966	11,592	12,853	411	1,752	15,016

10 Directors' and Supervisors' emoluments (Continued)

	2006						
	Fees RMB '000	Salaries RMB '000	Discretionary bonus payable RMB '000	Sub-total RMB '000	Contributions to defined contribution retirement schemes RMB '000	(note (iii)) Other benefits in kind RMB '000	Total RMB '000
Executive directors							
Chen Xiaoxian	—	450	2,314	2,764	232	—	2,996
Wu Beiying	—	—	—	—	—	—	—
Non-executive Directors							
Kong Dan	—	—	—	—	—	—	—
Chang Zhenming	—	—	—	—	—	—	—
Wang Chuan	—	—	—	—	—	—	—
Dou Jianzhong	—	—	—	—	—	—	—
Chen Xuduolin	—	—	—	—	—	—	—
Independent non-executive Directors							
Bai Zhong En	—	—	—	—	—	—	—
John Dexter Langlois	—	—	—	—	—	—	—
Xi Bolun	—	—	—	—	—	—	—
Wang Xiangfei	—	—	—	—	—	—	—
Supervisors/ External Supervisors							
Liu Chongming	—	—	—	—	—	—	—
Wang Shuanlin	—	—	—	—	—	—	—
Li Qianxin	—	—	—	—	—	—	—
Guo Ketong	—	—	—	—	—	—	—
Lin Zhengyue	—	110	281	391	77	—	468
Deng Yuewen	—	109	474	583	89	—	672
Li Gang	—	—	—	—	—	—	—
Former Directors and Supervisors resigned in 2006							
Wang Jun	—	—	—	—	—	—	—
Nan Jingming	—	—	—	—	—	—	—
	—	669	3,069	3,738	398	—	4,136

Notes: (i) Mr. Ju Weimin, José Ignacio Goirigolzarri, and Zhang Jijing were appointed as non-executive directors of the Bank in February 2007. Mr. Xie Rong and Ai Hongde were appointed as independent non-executive directors of the Bank in February 2007. Ms Zhuang Yumin was appointed as an external supervisor in March 2007. Mr. Zheng Xuexue was appointed as a supervisor in August 2007. Mr. Li Qianxin, the supervisor, resigned in August 2007. Mr. Xi Bolun, the independent non-executive director, resigned in January 2007.

(ii) Other benefits in kind included the Bank's contributions to medical fund, housing provident fund and other social insurances, which are payable to labour and social securities authorities based on the lower of certain percentages of the salaries or the prescribed upper limits as required by the relevant regulations issued by the government authorities. Other benefits also included the Bank's contribution to the defined contribution retirement schemes, which was set up by China CITIC Group in accordance with the relevant government policies, and supplementary medical insurance scheme.

(iii) None of the Directors and Supervisors received any inducements, or compensation for loss of office, or waived any emoluments during the years ended 31 December 2007 and 2006.

11 Individuals with highest emoluments

Of the five individuals with the highest emoluments, two (2006: one) are Directors or Supervisors whose emoluments are disclosed in Note 10 above. The aggregate of the emoluments before individual income tax in respect of the other three (2006: four) highest paid individuals are as follows:

	2007	2006
	RMB ’000	RMB ’000
Salaries and other emoluments	**2,232**	728
Discretionary bonuses	**10,671**	5,494
Retirement scheme contributions	**315**	781
Total	**13,218**	7,003

The emoluments before individual income tax of the three (2006: four) individuals with the highest emoluments are within the following bands:

	2007	2006
RMB1,500,001–RMB2,000,000	**—**	4
RMB4,000,001–RMB4,500,000	**3**	—

12 Loans to directors, supervisors and officers

Loans to the Directors, Supervisor and Officers (and their affiliates) of the Bank as defined under section 161B of the Hong Kong Companies Ordinance during the years ended 31 December 2007 and 2006 are as follows:

	2007	2006
Aggregate amount of relevant loans outstanding at year end	**26**	10

	2007	2006
Maximum aggregate amount of relevant loans outstanding during the year	**26**	12

13 Income tax

(a) Recognised in the income statement

	2007	2006
Current tax		
— Mainland China	**3,697**	1,199
— Hong Kong	**1**	—
Deferred tax (Note 21(b)) (Note(i))	**1,152**	1,945
Income tax	**4,850**	3,144

Note: (i) On 16 March 2007, the Tenth National People's Congress plenary session passed the unified enterprise income tax law. Pursuant to the unified income tax law, the income tax rate that is applicable to the Bank and its subsidiaries in the Mainland China will be reduced from 33% to 25% effective from 1 January 2008. Deferred tax assets and liabilities are adjusted for the change in income tax rate through income statement and equity.

(b) Reconciliation of profit before tax to income tax

	2007	2006
Profit before tax	**13,172**	7,002
Expected PRC income tax charged at statutory tax rate (note (i))	**4,347**	2,311
Tax impact on non-deductible expenses		
— Staff costs (note (ii))	**228**	654
— Effect of tax rate reduction from 33% to 25%	**295**	—
— Others (note (iii))	**226**	375
	749	1,029
Tax impact on non-taxable income		
— Interest income from PRC government bonds	**(245)**	(168)
— Others	**(1)**	(28)
	(246)	(196)
Income tax	**4,850**	3,144

Notes: (i) The provision for PRC income tax of the Group is calculated based on the statutory tax rate of 33% in accordance with the relevant PRC income tax rules and regulations except for the Group's subsidiaries outside Mainland China which are subject to the income tax rate of 17.5%.

(ii) Pursuant to the Notice (Cai Shui [2008] No.36) from the Ministry of Finance and the State Administration of Taxation in March 2008, the Bank's deductible salary expense for the year ended 31 December 2007 was approved to be RMB2,984 million.

(iii) The amounts primarily represent entertainment expenses, advertisement expenses and marketing expenses in excess of the deductible amounts. The amount for the year ended 31 December 2006 includes management fee to CITIC Group that is not tax deductible.

14 Earnings per share

The calculation of basic and diluted earnings per share amounts is based on the following:

	2007	2006
Earnings:		
Consolidated net profit for the period attributable to shareholders of the Bank	**8,322**	3,858
Shares:		
Weighted average number of shares in issue or deemed to be in issue (million)	**36,499**	31,113
Earnings per share (RMB)	**0.23**	0.12

Earnings per share information for the year ended 31 December 2007 is computed by dividing the consolidated net profit attributable to shareholders of the Bank by the weighted average number of shares in issue during the year.

On 31 December 2006, with the approval of the State Council of the PRC, CNCB was restructured and incorporated as a joint-stock limited company with a registered capital of RMB31,113 million divided into 31,113 million shares with a par value of RMB1 each. Earnings per share information for the year ended 31 December 2006 has been computed by dividing the consolidated net profit attributable to shareholders of the Bank by 31,113 million shares as if these shares had been in issue since 1 January 2006.

There was no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the year ended 31 December 2007 and 2006.

15 Cash and balances with central bank

	31 December 2007	31 December 2006
Cash	**4,341**	2,589
Balances with central bank		
— Statutory deposit reserve funds (note (i))	**84,968**	41,246
— Surplus deposit reserve funds (note (ii))	**33,545**	30,138
— Fiscal deposits reserve funds	**515**	677
— Balances under resale agreement with the PBOC	**86,030**	15,970
	205,058	88,031
Total	**209,399**	90,620

Notes: (i) The Bank places statutory deposit reserves with the People's Bank of China (the "PBOC"). The statutory deposit reserves are not available for use in the Bank's daily business.

As at 31 December 2007, the statutory deposit reserve placed with the PBOC was calculated at 14.5% (as at 31 December 2006: 9%) of eligible Renminbi deposits for domestic branches of the Bank. The Bank was also required to deposit an amount equivalent to 5% (as at 31 December 2006: 4%) of its foreign currency deposits from domestic branch customers as statutory deposit reserve.

(ii) The surplus deposit reserve is maintained with the PBOC for the purposes of clearing.

16 Amounts due from banks and other financial institutions

(a) Analysed by nature

	31 December 2007	31 December 2006
Deposits		
— Banks	**15,310**	8,894
— Other financial institutions	**255**	381
	15,565	9,275
Money market placements		
— Banks	**10,765**	4,843
— Other financial institutions	**471**	596
	11,236	5,439
Balances under resale agreements (note (i))		
— Banks	**26,157**	19,422
— Other financial institutions	**3,039**	9,419
	29,196	28,841
Gross balances	**55,997**	43,555
Less: Allowances for impairment losses (Note 16(d))	**(146)**	(305)
Net balances	**55,851**	43,250

Note: (i) Assets purchased under resale agreements are bank acceptance bills, loans and advances to customers, bonds issued by the PRC government, bonds issued by policy banks and other debt securities of equivalent amounts.

(b) Analysed by original maturity

	31 December 2007	31 December 2006
Balances maturing		
— less than one month	**36,437**	24,958
— between one month and one year	**18,891**	17,471
— more than one year	**669**	1,126
Gross balances	**55,997**	43,555

16 Amounts due from banks and other financial institutions (Continued)

(c) Analysed by geographical location

	31 December 2007	31 December 2006
Balances with		
— banks in Mainland China	**43,260**	27,214
— other financial institutions in Mainland China (note (i))	**3,765**	10,396
	47,025	37,610
Balances with		
— banks outside Mainland China	**8,972**	5,945
	8,972	5,945
Gross balances	**55,997**	43,555

Note: (i) Other financial institutions in Mainland China represent finance companies, investment trust companies and leasing companies which are registered with and under the supervision of the China Banking Regulatory Commission (the "CBRC"), and securities companies and investment fund companies registered with and under the supervision of the China Securities Regulatory Commission.

(d) Movements of allowances for impairment losses

	2007	2006
As at 1 January	**(305)**	(342)
Charge for the year	**(9)**	(3)
Reversal for the year	**10**	6
Write-offs	**158**	34
As at 31 December	**(146)**	(305)

(e) Impaired amounts due from banks and other financial institutions and allowances

	31 December 2007	31 December 2006
Gross impaired amounts due from banks and other financial institutions	**171**	357
Impairment allowances against gross impaired amounts due from banks and other financial institutions (note (i))	**(146)**	(305)
Net total	**25**	52
Gross impaired amounts due from banks and other financial institutions as a percentage of total amounts due from banks and other financial institutions	**0.31%**	0.82%

Note: (i) The allowances for impairment losses for amounts due from banks and other financial institutions are individually assessed.

17 Loans and advances to customers

(a) Analysed by nature

	31 December 2007	31 December 2006
Corporate loans	**468,340**	369,156
Personal loans	**76,089**	48,375
Discounted bills	**33,599**	45,636
Gross loans and advances to customers	**578,028**	463,167
Less:		
— Individual impairment allowances	**(5,421)**	(6,859)
— Collective impairment allowances	**(3,921)**	(2,927)
Less: Impairment allowances (Note 17(b))	**(9,342)**	(9,786)
Net loans and advances to customers	**568,686**	453,381

(b) Movements of allowances for impairment losses

	2007			
	Loans and advances for which allowances are collectively assessed	**Impaired loans and advances for which allowances are collectively assessed**	**Impaired loans and advances for which allowances are individually assessed**	**Total**
As at 1 January	**2,663**	**264**	**6,859**	**9,786**
Charge for the year				
— new impairment allowances charged to income statement	**959**	**81**	**2,193**	**3,233**
— impairment allowances released to income statement	**—**	**—**	**(373)**	**(373)**
Unwinding of discount	**—**	**—**	**(187)**	**(187)**
Transfers out	**—**	**—**	**(45)**	**(45)**
Write-offs	**—**	**(46)**	**(3,026)**	**(3,072)**
As at 31 December	**3,622**	**299**	**5,421**	**9,342**

17 Loans and advances to customers (Continued)

(b) Movements of allowances for impairment losses (Continued)

	2006			
	Loans and advances	Impaired loans and advances		
	for which allowances are collectively assessed	for which allowances are collectively assessed	for which allowances are individually assessed	Total
As at 1 January	2,383	225	9,622	12,230
Charge for the year				
— new impairment allowances charged to income statement	280	51	2,020	2,351
— impairment allowances released to income statement	—	—	(870)	(870)
Unwinding of discount	—	—	(210)	(210)
Transfers out	—	—	(153)	(153)
Write-offs	—	(12)	(3,673)	(3,685)
— Recoveries of loans and advances previously written off	—	—	123	123
As at 31 December	2,663	264	6,859	9,786

17 Loans and advances to customers (Continued)

(c) Loans and advances to customers and allowances

	31 December 2007				
	(note (i)) Loans and advances for which allowances are collectively assessed	(note (ii)) Impaired loans and advances: for which allowances are collectively assessed	(note (ii)) Impaired loans and advances: for which allowances are individually assessed	Total	Gross impaired loans and advances as a % of gross total loans and advances
Gross loans and advances to					
— financial institutions	**1,281**	**—**	**231**	**1,512**	**15.28%**
— non-financial institutions	**568,255**	**488**	**7,773**	**576,516**	**1.43%**
	569,536	**488**	**8,004**	**578,028**	**1.47%**
Less: Impairment allowances against loans and advances to					
— financial institutions	**(9)**	**—**	**(65)**	**(74)**	
— non-financial institutions	**(3,613)**	**(299)**	**(5,356)**	**(9,268)**	
	(3,622)	**(299)**	**(5,421)**	**(9,342)**	
Net loans and advances to					
— financial institutions	**1,272**	**—**	**166**	**1,438**	
— non-financial institutions	**564,642**	**189**	**2,417**	**567,248**	
	565,914	**189**	**2,583**	**568,686**	

17 Loans and advances to customers (Continued)

(c) Loans and advances to customers and allowances (Continued)

	31 December 2006				
	(note (i)) Loans and advances for which allowances are collectively assessed	(note (ii)) Impaired loans and advances: for which allowances are collectively assessed	(note (ii)) Impaired loans and advances: for which allowances are individually assessed	Total	Gross impaired loans and advances as a % of gross total loans and advances
Gross loans and advances to					
— financial institutions	2,867	—	240	3,107	7.72%
— non-financial institutions	448,735	414	10,911	460,060	2.46%
	451,602	414	11,151	463,167	2.50%
Less: Impairment allowances against loans and advances to					
— financial institutions	(38)	—	(66)	(104)	
— non-financial institutions	(2,625)	(264)	(6,793)	(9,682)	
	(2,663)	(264)	(6,859)	(9,786)	
Net loans and advances to					
— financial institutions	2,829	—	174	3,003	
— non-financial institutions	446,110	150	4,118	450,378	
	448,939	150	4,292	453,381	

Notes: (i) Loans and advances assessed on a collective basis for impairment bear relatively insignificant impairment losses as a proportion of the total portfolio. These loans and advances include those which are graded normal or special-mention.

(ii) Impaired loans and advances to customers include loans and advances for which objective evidence of impairment exists and which have been assessed as bearing significant impairment losses. These loans and advances include loans and advances for which objective evidence of impairment has been identified:

— individually (representing corporate loans and advances which are graded substandard, doubtful or loss); or

— collectively; that is the portfolios of homogeneous loans and advances (representing personal loans and advances which are graded substandard, doubtful or loss).

(iii) The definitions of the loan classification as stated above are described in Note 35(a).

(iv) As at 31 December 2007, the loans and advances for which the impairment allowances were individually assessed amounted to RMB8,004 million. The covered portion and uncovered portion of these loans and advances were RMB1,424 million and RMB6,580 million respectively. The fair value of collaterals held against these loans and advances amounted to RMB1,774 million. The fair value of collaterals was estimated by management based on the latest available external valuations adjusted by taking into account the current realization experience as well as market situation. The individual impairment allowances made against these loans and advances were RMB5,421 million.

17 Loans and advances to customers (Continued)

(d) Analysed by legal form of borrowers

	31 December 2007	31 December 2006
Corporate loans to		
— Joint-stock enterprises	**207,697**	166,490
— State-owned enterprises	**167,708**	131,954
— Foreign invested enterprises	**55,100**	39,048
— Private enterprises	**27,673**	18,162
— Collectively-controlled enterprises	**5,847**	5,721
— Others	**4,315**	7,781
Subtotal	**468,340**	369,156
Personal loans		
— Home mortgage loans	**60,833**	36,470
— Credit card advances	**4,145**	1,280
— Others	**11,111**	10,625
Subtotal	**76,089**	48,375
Discounted bills	**33,599**	45,636
Gross loans and advances to customers	**578,028**	463,167
Less: Impairment allowances	**(9,342)**	(9,786)
Net loans and advances to customers	**568,686**	453,381

18 Trading assets and liabilities

(a) Trading assets — debt securities

	31 December 2007	31 December 2006
At fair value and issued by:		
Government		
— of Mainland China	**—**	52
PBOC	**1,093**	2,051
Policy banks in Mainland China	**2,167**	1,764
Banks and other financial institutions		
— in Mainland China	**—**	32
— outside Mainland China	**364**	550
Corporate entities		
— in Mainland China	**2,876**	276
Total	**6,500**	4,725
Listed outside Hong Kong	**—**	154
Unlisted	**6,500**	4,571
Total	**6,500**	4,725

(b) Trading liabilities — short positions in debt securities

	31 December 2007	31 December 2006
At fair value and issued by:		
Government		
— outside Mainland China	**—**	79

19 Investment securities

	Note	**31 December 2007**	31 December 2006
Held-to-maturity debt securities	(a)	**109,391**	68,196
Available-for-sale			
— debt securities	(b)	**43,502**	31,166
— equity investments	(c)	**455**	337
		43,957	31,503
Total		**153,348**	99,699

19 Investment securities (Continued)

(a) Held-to-maturity debt securities

	31 December 2007	31 December 2006
Issued by:		
Government		
— of Mainland China	**34,048**	17,673
— outside Mainland China	**73**	2,813
PBOC	**35,965**	17,638
Policy banks		
— in Mainland China	**17,424**	13,824
— outside Mainland China	**127**	439
Banks and other financial institutions		
— in Mainland China	**3,839**	991
— outside Mainland China	**6,275**	6,439
Public sector entities outside Mainland China	**9,895**	6,663
Corporate entities		
— in Mainland China	**1,080**	581
— outside Mainland China	**665**	1,135
Total	**109,391**	68,196
Listed in Hong Kong	**210**	156
Listed outside Hong Kong	**5,449**	6,572
Unlisted	**103,732**	61,468
Total	**109,391**	68,196
Market value of listed securities	**5,582**	6,641

Debt securities intended to be held to maturity by the Group with an amortised cost of RMB1,450 million were transferred to available-for-sale category during the year. Such transfer was made due to isolated events which were not anticipated by the Group.

19 Investment securities (Continued)

(b) Available-for-sale debt securities

	31 December 2007	31 December 2006
At fair value and issued by:		
Government		
— of Mainland China	**231**	2,029
— outside Mainland China	**2,506**	539
PBOC	**5,129**	4,032
Policy banks		
— in Mainland China	**8,424**	8,559
— outside Mainland China	**452**	331
Banks and other financial institutions		
— in Mainland China	**—**	99
— outside Mainland China	**11,745**	7,539
Public sector entities outside Mainland China	**5,400**	2,325
Corporate entities		
— in Mainland China	**9,569**	5,159
— outside Mainland China	**46**	554
Total	**43,502**	31,166
Listed in Hong Kong	**484**	558
Listed outside Hong Kong	**7,243**	6,549
Unlisted	**35,775**	24,059
Total	**43,502**	31,166

(c) Available-for-sale equity investments

	31 December 2007	31 December 2006
At fair value and issued by:		
Banks and other financial institutions		
— in Mainland China	**114**	70
— outside Mainland China	**341**	267
Total	**455**	337

All of the above equity investments are unlisted.

20 Property and equipment

	Bank premises (Note 20 (a))	Construction in progress	Computer equipment	Others	Total
Cost or valuation:					
As at 1 January 2007	**7,253**	**237**	**2,011**	**1,208**	**10,709**
Additions	**145**	**75**	**303**	**291**	**814**
Disposals	**(5)**	**—**	**(85)**	**(101)**	**(191)**
Transfers	**240**	**(240)**	**—**	**—**	**—**
Surplus on revaluation	**54**	**—**	**—**	**—**	**54**
Elimination of accumulated depreciation on revaluation	**(304)**	**—**	**—**	**—**	**(304)**
As at 31 December 2007	**7,383**	**72**	**2,229**	**1,398**	**11,082**
Accumulated depreciation and impairment losses:					
As at 1 January 2007	**—**	**—**	**(1,284)**	**(680)**	**(1,964)**
Depreciation charges	**(304)**	**—**	**(181)**	**(160)**	**(645)**
Disposals	**—**	**—**	**74**	**97**	**171**
Elimination on revaluation	**304**	**—**	**—**	**—**	**304**
As at 31 December 2007	**—**	**—**	**(1,391)**	**(743)**	**(2,134)**
Net carrying value:					
As at 31 December 2007 (note (i))	**7,383**	**72**	**838**	**655**	**8,948**

	Bank premises (Note 20 (a))	Construction in progress	Computer equipment	Others	Total
Cost or valuation:					
As at 1 January 2006	7,355	69	1,839	1,145	10,408
Additions	66	190	242	228	726
Disposals	(96)	(16)	(74)	(165)	(351)
Transfers	2	(6)	4	—	—
Surplus on revaluation	123	—	—	—	123
Elimination of accumulated depreciation on revaluation	(197)	—	—	—	(197)
As at 31 December 2006	7,253	237	2,011	1,208	10,709
Accumulated depreciation and impairment losses:					
As at 1 January 2006	—	—	(1,113)	(681)	(1,794)
Depreciation charges	(236)	—	(243)	(142)	(621)
Disposals	39	—	72	143	254
Elimination on revaluation	197	—	—	—	197
As at 31 December 2006	—	—	(1,284)	(680)	(1,964)
Net carrying value:					
As at 31 December 2006 (note (i))	7,253	237	727	528	8,745

20 Property and equipment (Continued)

Note: (i) As at 31 December 2007, the net book value of the Group's bank premises for which the registration procedures for ownership had not been completed was approximately RMB593 million (as at 31 December 2006: RMB669 million). The Group anticipates that there would be no significant issues and costs in completing such procedures.

(a) Analysed by remaining term of leases

The net carrying value of bank premises at the balance sheet date is analysed by the remaining terms of the leases as follows:

	31 December 2007	31 December 2006
Long term leases (over 50 years), held in Hong Kong	**38**	27
Medium term leases (10–50 years), held in the PRC	**7,345**	7,226
Total	**7,383**	7,253

(b) Valuation

The bank premises of the Group were revalued as at 31 December 2007 at their open market value by reference to recent market transactions in comparable properties. The valuations were carried out by an independent firm of valuer, Jones Lang Lasalle Sallmanns Limited.

The revaluation surpluses have been transferred to the properties revaluation reserve of the Group.

Had these bank premises been carried at cost less accumulated depreciation, the carrying amounts would have been RMB5,081 million as at 31 December 2007 (as at 31 December 2006: RMB4,832 million).

21 Deferred tax assets/(liabilities)

(a) Analysed by nature

	31 December 2007	31 December 2006
Deferred tax assets	**954**	2,210
Deferred tax liabilities	**(13)**	(141)
Net balance	**941**	2,069

(b) The components of deferred tax assets/(liabilities) recognised in the balance sheet and the movements during the year ended 31 December 2007 and the year ended 31 December 2006 are as follows:

	Impairment loss on loans and advances to customers	**Fair value** Note (i)	**Others**	**Total deferred tax assets/ (liabilities)**
As at 1 January 2007	**1,732**	**(141)**	**478**	**2,069**
Recognised in income statement	**(824)**	**104**	**(432)**	**(1,152)**
Recognised in equity	**—**	**24**	**—**	**24**
As at 31 December 2007	**908**	**(13)**	**46**	**941**
As at 1 January 2006	3,378	(93)	726	4,011
Recognised in income statement	(1,646)	(51)	(248)	(1,945)
Recognised in equity	—	3	—	3
As at 31 December 2006	1,732	(141)	478	2,069

Notes: (i) Unrealised gains or losses arising from fair value adjustments for securities and derivatives are subject to tax when realised.

(ii) The Group did not have significant unrecognised deferred tax arising at the balance sheet date.

22 Other assets

	31 December 2007	31 December 2006
Interest receivables		
— debt securities	**1,744**	986
— loans and advances to customers	**1,497**	982
— others	**118**	28
	3,359	1,996
Repossessed assets	**487**	599
Land use rights	**187**	191
Intangible assets	**83**	57
Others	**1,335**	798
Total	**5,451**	3,641

23 Amounts due to banks and other financial institutions

(a) Analysed by nature

	31 December 2007	31 December 2006
Deposits		
— Banks	**4,732**	5,359
— Other financial institutions	**91,877**	25,962
	96,609	31,321
Balances under repurchase agreements (note (i))		
— Banks	**5,112**	1,538
— Other financial institutions	**10,227**	165
	15,339	1,703
Money market takings		
— Banks	**—**	2,486
— Other financial institutions	**639**	656
	639	3,142
Total	**112,587**	36,166

Note: (i) Assets pledged under repurchase agreements are bank acceptance bills, loans and advances to customers and debt securities.

23 Amounts due to banks and other financial institutions (Continued)

(b) Analysed by geographical location

	31 December 2007	31 December 2006
Balances payable on demand		
— Banks in Mainland China	**3,382**	3,760
— Other financial institutions in Mainland China	**90,642**	23,755
	94,024	27,515
Term deposits		
— Banks in Mainland China	**6,083**	4,455
— Other financial institutions in Mainland China	**5,187**	3,028
	11,270	7,483
Term deposits		
— Banks outside Mainland China	**380**	1,168
— Other financial institutions outside Mainland China	**6,913**	—
	7,293	1,168
Total	**112,587**	36,166

24 Deposits from customers

Analysed by nature

	31 December 2007	31 December 2006
Demand deposits		
— Corporate customers	**338,074**	260,971
— Personal customers	**66,900**	26,053
	404,974	287,024
Time and call deposits		
— Corporate customers	**301,931**	251,580
— Personal customers	**80,306**	79,808
	382,237	331,388
Total (note (i))	**787,211**	618,412

Note: (i) As at 31 December 2007, the Group's deposits from customers included structured deposits amounting to RMB7,212 million (as at 31 December 2006: RMB13,559 million), which are financial liabilities designated at fair value through profit or loss upon initial recognition.

25 Other liabilities and provisions

	31 December 2007	31 December 2006
Interest payables		
— Deposits from customers	**3,751**	2,885
— Others	**341**	293
Salaries and welfare payables	**2,958**	1,319
Supplementary retirement benefit obligations	**38**	48
Business and other tax payables	**743**	476
Litigation provision (note (i))	**40**	20
Others	**1,640**	1,183
Total	**9,511**	6,224

Note: (i) Movements of litigation provision are as follow:

	2007	2006
As at 1 January	**20**	—
Charge for the year	**40**	20
Transfer out during the year	**(20)**	—
As at 31 December	**40**	20

26 Subordinated debts/bonds issued

The carrying value of the Group's subordinated debts/bonds at the balance sheet date represents:

	Note	**31 December 2007**	31 December 2006
Subordinated floating rate debts maturing			
— in June 2010	(i)	**4,778**	4,778
— in July 2010	(i)	**602**	602
— in September 2010	(i)	**300**	300
— in June 2010	(ii)	**320**	320
Subordinated fixed rate bonds maturing			
— in June 2016	(iii)	**4,000**	4,000
— in June 2021	(iv)	**2,000**	2,000
Total nominal value		**12,000**	12,000

Notes:
(i) The interest rate per annum on the subordinated floating rate debts is the PBOC one-year fixed deposit rate plus an interest margin of 2.72%.
(ii) The interest rate per annum on the subordinated floating rate debts is the PBOC one-year fixed deposit rate plus an interest margin of 2.60%.
(iii) The interest rate per annum on the subordinated fixed rate bonds is 3.75%. The Group has an option to redeem the debts on 22 June 2011. If they are not redeemed early, the interest rate of the debts will increase in June 2011 to 6.75% per annum for the next five years.
(iv) The interest rate per annum on the subordinated fixed rate bonds is 4.12%. The Group has an option to redeem the debts on 22 June 2016. If they are not redeemed early, the interest rate of the debts will increase in June 2016 to 7.12% per annum for the next five years.

27 Equity

(a) Share capital

	No. of shares	Amount
Registered, issued and fully paid:		
Ordinary shares of RMB1 each		
As at 1 January 2006	—	—
Shares issued upon incorporation	31,113	31,113
As at 31 December 2006	31,113	31,113
Shares issued in A share offering	2,302	2,302
Shares issued in H share global offering	5,618	5,618
As at 31 December 2007	39,033	39,033

On 31 December 2006, the Bank was incorporated with a registered and paid up capital of RMB31,113 million divided into 31,113 million shares with a par value of RMB1 each. Shares of 31,113 million were issued to the joint promoters of the Bank, CITIC Group Company ("CITIC Group"), the Bank's holding company and CITIC International Financial Holdings Limited ("CIFH"), a CITIC Group fellow subsidiary.

With the approval from the CBRC dated 28 February 2007 (Yin Jian Fu [2007] No.85) in respect of the sale of the Bank's shares from CITIC Group to Banco Bilbao Vizcaya Argentaria, S.A. ("BBVA"), CITIC Group sold 1,502,763,281 shares of the Bank to BBVA on 1 March 2007.

In April 2007, a total of 2,302 million A shares with a par value of RMB1 each were issued by the Bank at a subscription price of RMB5.80 per share, with share premium totalling RMB11,049 million, through the A share initial public offering to domestic investors. Upon the completion of the A share initial public offering, the shares held by CITIC Group before the A share public offering were converted into A shares.

27 Equity (Continued)

(a) Share capital (Continued)

In April 2007, a total of 4,885 million H shares with a par value of RMB1 each were issued by the Bank at a subscription price of HKD5.86 per share, with share premium totalling RMB23,352 million, through the H share initial public offering to Hong Kong and overseas investors (the "Global Offering"). Upon the completion of the Global Offering, all of the shares held by CIFH and BBVA before the Global Offering were converted into H shares.

In May 2007, a total of 733 million H shares with a par value of RMB1 each were issued by the Bank at a subscription price of HKD5.86 per share, with share premium totaling RMB3,497 million, as a result of the exercise of the over-allotment option.

All A shares and H shares are ordinary shares and rank pari passu with the same rights and benefits.

(b) Capital reserve

	Note	**Amount**
As at 1 January 2006		—
— Transfer of welfare payable to capital reserve	(i)	102
— Shares issued upon incorporation and elimination of owner's capital, reserves and accumulated losses as at 31 December 2005	(ii)	(493)
As at 31 December 2006		(391)
Share premium before costs of issuing shares	(iii)	37,898
Costs of issuing shares net of interest income received	(iii)	(982)
Net Share premium	(iii)	36,916
As at 31 December 2007		36,525

Notes: (i) In accordance with the notice "Accounting Treatment on Salary Payables for Enterprise Restructuring" (Cai Ban Qi [2006] No.23) issued by MOF on 17 March 2006, RMB102 million of accrued welfare payable was transferred to the capital reserve.

(ii) Pursuant to the restructuring, the owner's capital, reserves and accumulated losses of CNCB, as determined under PRC GAAP, were converted into the Bank's issued share capital upon its incorporation. Further, in order to have the same amount of share capital under both IFRS and PRC GAAP, RMB391 million was transferred from newly created capital reserve to share capital under IFRS.

(iii) As described in Note 27(a), the Bank issued a total of 7,920 million ordinary shares of RMB1 each at a total consideration of RMB45,818 million in 2007. After accounting for interest income and costs directly associated with the share issue, the Bank credited the share premium of RMB36,916 million to capital reserve.

Capital reserve may be used for increasing paid-in capital as approved by the shareholders.

27 Equity (Continued)

(c) Surplus reserves

Under relevant PRC Laws, the Bank is required to appropriate 10% of its net profit, as determined under the Accounting Standards for Business Enterprises and other relevant regulations issued by the MOF (collectively "PRC GAAP"), to the statutory surplus reserve until the reserve balance reaches 50% of the registered capital. After making the appropriation to the statutory surplus reserve, the Bank may also appropriate its net profit to the discretionary surplus reserve upon approval by shareholders in general meeting.

Subject to the approval of shareholders, statutory and discretionary surplus reserves may be used to make good prior year losses, if any, and may be converted into capital, provided that the balance of statutory surplus reserve after such capitalisation is not less than 25% of the registered capital before such capitalisation.

(d) General reserve

Pursuant to Cai Jin [2005] No. 49 and Cai Jing [2005] No. 90 issued by the MOF on 17 May 2005 and 5 September 2005 respectively (collectively named as the "MOF Notices"), which are effective on 1 July 2005, banks and certain other financial institutions in the PRC, including the Bank, should set up a general reserve calculated as a percentage of the total risk assets at the balance sheet date, through a transfer from retained earnings, to cover potential losses that are not yet incurred.

The general reserve forms part of the equity of the financial institution. Financial institutions are not allowed to make profit distributions to shareholders until adequate general reserve has been made. If a financial institution cannot meet the requirement of maintaining adequate general reserve as stipulated in the MOF Notices as at 1 July 2005, the financial institution is required to take necessary steps to ensure that such requirement can be met in approximately 3 years but not more than 5 years, from 1 July 2005.

(e) Investment revaluation reserve

Investment revaluation reserve has been accounted for in accordance with the accounting policies adopted for the measurement of available-for-sale investments at fair value.

(f) Properties revaluation reserve

Properties revaluation reserve has been made in accordance with the accounting policies adopted for the Group's bank premises.

28 Profit appropriations

(a) Profit appropriations and distributions other than dividends declared during the year

	2007	2006
Appropriations to		
— Statutory surplus reserve	**829**	—
— General reserve	**3,731**	—
	4,560	—

In accordance with the approval from the Directors dated 26 March 2008, the Group appropriated RMB829 million to Statutory Surplus Reserve Fund and RMB3,731 million to General Reserve, 10% and 45% of the net profit after taxation under relevant PRC accounting rules and regulations, respectively.

(b) Dividends payable to equity shareholders of the Bank attributable to the year

On 26 March 2008, the Directors proposed a final cash dividend of RMB0.535 per ten shares in respect of the year ended 31 December 2007. Subject to the agreement of the shareholders in the Annual General Meeting, the total amount of approximately RMB2,088 million is payable to those on the register of shareholders as at 12 June 2008. This dividend has not been recognised as liability at the balance sheet date.

(c) Profit distributions of the Bank's profit between 31 December 2005 and the date of incorporation

In accordance with relevant PRC rules and regulations, CITIC Group is entitled to the profit and loss made by CNCB between 31 December 2005 and the date of the Bank's incorporation. Accordingly, CITIC Group was entitled to the RMB3,726 million net profit of the Group under PRC GAAP for the year 2006.

The Bank paid RMB3,000 million and RMB726 million in cash with respect to the above profit to CITIC Group in 2006 and 2007 respectively.

29 Notes to consolidated cash flow statement

Cash and cash equivalents

	31 December 2007	31 December 2006
Cash	**4,341**	2,589
Surplus deposit reserve funds	**33,545**	30,138
Amounts due from banks and other financial institutions	**55,851**	43,250
Less:		
— amounts due over three months when acquired	**(760)**	(1,171)
— balances under resale agreements	**(29,196)**	(28,841)
	25,895	13,238
Investment securities	**26,764**	7,062
Total	**90,545**	53,027

30 Commitments and contingent liabilities

(a) Credit commitments

At any given time the Group has outstanding commitments to extend credit. These commitments take the form of approved loans and credit card limits.

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties.

30 Commitments and contingent liabilities (Continued)

(a) Credit commitments (Continued)

Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amount reflected in the table for guarantees and letters of credit represents the maximum potential loss that would be recognised at the balance sheet date if counterparties failed completely to perform as contracted.

	31 December 2007	31 December 2006
Contractual amount		
Loan commitments		
— with an original maturity of under one year	**102**	147
— with an original maturity of one year or over	**8,048**	5,547
	8,150	5,694
Guarantees and letters of credit	**68,563**	49,466
Acceptances	**166,939**	132,000
Credit card commitments	**16,934**	8,412
	260,586	195,572

These commitments and contingent liabilities have off-balance sheet credit risk. Before the commitments are fulfilled or expire, management assess and make allowances, which are recorded in other liabilities, for any probable losses accordingly. As the facilities may expire without being drawn upon, the total of the contractual amounts is not representative of expected future cash outflows.

30 Commitments and contingent liabilities (Continued)

(a) Credit commitments (Continued)

	31 December 2007	31 December 2006
Credit risk weighted amount of contingent liabilities and commitments	**108,025**	70,976

The credit risk weighted amount refers to the amount as computed in accordance with the rules set out by the CBRC and depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% of contingent liabilities and commitments. The credit risk weighted amounts stated above have taken into account the effects of bilateral netting arrangements.

There are no relevant standards prescribed by IFRS in calculating the above credit risk weighted amounts.

(b) Capital commitments

The Group had the following authorised capital commitments at the balance sheet date:

	31 December 2007	31 December 2006
Purchase of property and equipment		
— Contracted for	**391**	105

30 Commitments and contingent liabilities (Continued)

(c) Operating lease commitments

The Group leases certain properties under operating leases, which typically run for an initial period of one to five years and may include an option to renew the lease when all terms are renegotiated. At the balance sheet date, the Group's future minimum lease payments under non-cancellable operating leases for premises were as follows:

	31 December 2007	31 December 2006
Within one year	**447**	366
After one year but within two years	**388**	306
After two year but within three years	**336**	255
After three year but within five years	**495**	356
After five years	**609**	496
Total	**2,275**	1,779

(d) Outstanding litigations and disputes

As at 31 December 2007, the Group was the defendant in certain pending litigations with gross claims of RMB214 million (as at 31 December 2006: RMB144 million). Based on the opinion of internal and external legal counsels of the Group, the possible loss of these litigations is recognised as other liability and provisions. The Group believes that the accrual of other liability is reasonable and adequate.

30 Commitments and contingent liabilities (Continued)

(e) Underwriting obligations

At the balance sheet date, the unexpired underwriting commitments of PRC bonds were as follows:

	31 December 2007	31 December 2006
Underwriting obligations	**—**	950

(f) Redemption obligations

As an underwriting agent of PRC government bonds, the Group has the responsibility to buy back those bonds sold by it should the holders decide to early redeem the bonds held. The redemption price for the bonds at any time before their maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interest payables to the bond holders are calculated in accordance with relevant rules of the MOF and the PBOC. The redemption price may be different from the fair value of similar instruments traded at the redemption date.

The redemption obligations below represent the nominal value of government bonds underwritten and sold by the Group, but not yet matured at the balance sheet date:

	31 December 2007	31 December 2006
Redemption obligations	**7,642**	15,590

(g) Provision against commitments and contingent liabilities

The Group has assessed and has made provision for any probable outflow of economic benefits in relation to the above commitments and contingent liabilities at the balance sheet date in accordance with its accounting policies.

31 Pledged assets

Financial assets pledged as collaterals

The following assets have been pledged as security for bills rediscounting transactions and assets and securities sold under repurchase agreements. These transactions are conducted under terms that are usual and customary to standard lending. The related secured liabilities are recorded as amounts due to central bank, or banks and other financial institutions of approximately similar carrying value at the balance sheet date.

	31 December 2007	31 December 2006
Debt securities	**9,853**	1,168
Discounted bills	**521**	41
Loans and advances to customers	**5,392**	535
Total	**15,766**	1,744

32 Transactions on behalf of customers

(a) Entrusted lending business

The Group provides entrusted lending business services to corporations and individuals. All entrusted loans are made under the instruction or at the direction of these entities or individuals and are funded by entrusted funds from them.

For entrusted assets and liabilities and entrusted provident housing fund mortgage business, the Group generally does not take on credit risk in relation to these transactions. The Group acts as an agent to hold and manage these assets and liabilities at the direction of the entrustor and receives fee income for the services provided.

Trust assets are not assets of the Group and are not recognised in the balance sheet. Surplus funding is accounted for as deposits from customers. Income received and receivable for providing these services is included in the income statement as fee income.

32 Transactions on behalf of customers (Continued)

(a) Entrusted lending business (Continued)

At the balance sheet date, the entrusted assets and liabilities were as follows:

	31 December 2007	31 December 2006
Entrusted loans	**21,982**	21,986
Entrusted funds	**21,982**	21,986

(b) Wealth management services

The Group's wealth management services to customers mainly represent sales of wealth management products to corporate and personal banking customers. The funds obtained from wealth management services are invested in investment products, including government bonds, PBOC bills, notes issued by policy banks, short-dated corporate notes, entrusted loans and IPO shares. The credit risk, liquidity risk and interest rate risk associated with these products are borne by the customers who invest in these products. The Group only earns commission which represents the charges on customers in relation to the provision of custody, sales and management services. The income is recognised in the income statement as commission income.

The wealth management products and funds obtained are not assets and liabilities of the Group and are not recognised in the balance sheets. The funds obtained from wealth management services that have not yet been invested are recorded under deposits from customers.

32 Transactions on behalf of customers (Continued)

(b) Wealth management services (Continued)

At the balance sheet date, the assets and liabilities under wealth management services were as follows:

	31 December 2007	31 December 2006
Investments under wealth management services	**30,798**	4,110
Funds from wealth management services	**30,798**	4,110

Amongst the above funds from wealth management service, RMB27,253 million was entrusted to CITIC Trust Co., Ltd. ("CITIC Trust"), a wholly owned subsidiary of CITIC Group, as at 31 December 2007 (2006: RMB1,500 million).

33 Segment reporting

Segment information is presented in respect of the Group's business and geographical segments. Business segment information has been chosen as the primary reporting format as it is more relevant to the Group's internal financial reporting. Measurement of segment assets and liabilities and segment income and results is based on the Group's accounting policies.

Segment income, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Funding is provided to and from individual segment through treasury operations as part of the asset and liability management process. Internal charges and transfer pricing of these transactions are based on management's assessment of its average cost of funding and interest bearing assets and liabilities with reference to market rates and have been reflected in the performance of each segment. Net interest income and expenses arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/expenses". Interest income and expenses earned from third parties are referred to as "external net interest income/expenses".

Segment income, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group entities within a single segment.

33 Segment reporting (Continued)

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year.

(a) Business segments

The Group comprises the following main business segments:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations, government agencies and financial institutions. The products and services include corporate loans, trade financing, deposit taking activities, agency services, remittance and settlement services and guarantee services.

Personal banking

This segment represents the provision of a range of financial products and services to individual customers. The products and services comprise personal loans, deposit services and securities agency services.

Treasury business

This segment covers the Group's treasury operations. The treasury enters into inter-bank money market transactions and repurchase transactions, and invests in debt instruments. It also trades in debt instruments, derivatives and foreign currency for its own account. The treasury carries out customer driven transactions on derivatives and foreign currency trading. Its function also includes the management of the Group's overall liquidity position, including the issuance of subordinated debts/bonds.

Others and unallocated

These represent equity investments and headquarters assets, liabilities, income and expenses that are not directly attributable to a segment or cannot be allocated on a reasonable basis.

33 Segment reporting (Continued)

(a) Business segments (Continued)

	2007				
	Corporate Banking	Personal Banking	Treasury Business	Others and unallocated	Total
External net interest income	18,804	1,915	5,499	(48)	26,170
Internal net interest income/(expense)	2,078	1,514	(3,177)	(415)	—
Net interest income/(expense)	20,882	3,429	2,322	(463)	26,170
Net fee and commission income/(expense)	826	1,258	51	(55)	2,080
Net trading gain/(loss)	551	—	47	(1,432)	(834)
Net gain arising from investment securities	—	—	284	—	284
Other income	128	—	3	124	255
Operating income/(expense)	22,387	4,687	2,707	(1,826)	27,955
General and administrative expenses					
— depreciation and amortisation	(360)	(358)	(32)	(30)	(780)
— others	(6,720)	(3,465)	(589)	(241)	(11,015)
Impairment losses charge	(2,866)	(130)	(7)	15	(2,988)
Profit/(loss) before tax	12,441	734	2,079	(2,082)	13,172
Capital expenditure	685	637	60	52	1,434

	31 December 2007				
Segment assets	580,015	99,733	324,391	7,047	1,011,186
Segment liabilities	649,675	149,174	121,412	6,834	927,095
Off-balance sheet credit commitments	243,652	16,934	—	—	260,586

33 Segment reporting (Continued)

(a) Business segments (Continued)

	2006				
	Corporate Banking	Personal Banking	Treasury Business	Others and unallocated	Total
External net interest income/(expense)	12,323	911	3,316	(77)	16,473
Internal net interest income/(expense)	981	1,288	(1,851)	(418)	—
Net interest income/(expense)	13,304	2,199	1,465	(495)	16,473
Net fee and commission income/(expense)	516	187	82	(26)	759
Net trading gain/(loss)	330	—	174	(50)	454
Net gain arising from investment securities	—	—	45	—	45
Other operating income	92	—	1	103	196
Operating income/(expense)	14,242	2,386	1,767	(468)	17,927
General and administrative expenses					
— depreciation and amortisation	(367)	(273)	(34)	(34)	(708)
— others	(4,910)	(2,042)	(476)	(1,123)	(8,551)
Impairment losses charge	(1,638)	20	7	(55)	(1,666)
Profit/(loss) before tax	7,327	91	1,264	(1,680)	7,002
Capital expenditure	411	292	27	31	761

	31 December 2006				
Segment assets	462,757	58,695	179,180	6,091	706,723
Segment liabilities	515,135	106,826	48,706	4,362	675,029
Off-balance sheet credit commitments	187,160	8,412	—	—	195,572

33 Segment reporting (Continued)

(b) Geographical segments

The Group operates principally in Mainland China with branches and sub-branches located in 21 provinces, autonomous regions and municipalities directly under the central government. The Bank's principal subsidiary, China International Finance Limited, is registered and operating in Hong Kong.

In presenting information by geographical segment, operating income is allocated based on the location of the branches that generated the revenue. Segment assets and capital expenditure are allocated based on the geographical location of the underlying assets.

Geographical segments, as defined for management reporting purposes, are as follows:

— "Yangtze River Delta" refers to the following areas where tier-1 branches of the Group are located: Shanghai, Nanjing, Suzhou, Hangzhou and Ningbo;

— "Pearl River Delta and West Strait" refers to the following areas where tier-1 branches of the Group are located: Guangzhou, Shenzhen, Dongguan, Fuzhou and Xiamen;

— "Bohai Rim" refers to the following areas where tier-1 branches of the Group are located: Beijing, Tianjin, Dalian, Qingdao, Shijiazhuang and Jinan;

— "Central" region refers to the following areas where tier-1 branches of the Group are located: Hefei, Zhengzhou, Wuhan, Changsha, Taiyuan and Nanchang;

— "Western" region refers to the following areas where tier-1 branches of the Group are located: Chengdu, Chongqing, Xi'an, Kunming and Hohhot;

— "Northeastern" region refers to the following areas where tier-1 branch of the Group is located: Shenyang;

— "Headquarters" refers to the headquarters of the Group and the credit card center; and

— "Hong Kong" region refers to the Hong Kong Special Administrative Region where the subsidiaries of the Bank are located.

33 Segment reporting (Continued)

(b) Geographical segments (Continued)

	2007									
	Yangtze River Delta	Pearl River Delta and West Strait	Bohai Rim	Central	Western	Northeastern		Hong Kong	Elimination	Total
External net interest income	6,853	2,817	4,344	2,193	2,328	847	6,773	15	—	26,170
Internal net interest income/ (expense)	616	836	2,356	98	(210)	(101)	(3,598)	3	—	—
Net interest income/(expense)	7,469	3,653	6,700	2,291	2,118	746	3,175	18	—	26,170
Net fee and commission income	495	172	591	178	145	72	427	—	—	2,080
Net trading gain/(loss)	177	67	267	41	15	9	(1,410)	—	—	(834)
Net gain arising from investment securities	2	2	1	—	—	—	264	15	—	284
Other operating income	77	31	56	11	8	5	47	20	—	255
Operating income	8,220	3,925	7,615	2,521	2,286	832	2,503	53	—	27,955
General and administrative expenses										
— depreciation and amortisation	(182)	(64)	(148)	(46)	(45)	(14)	(281)	—	—	(780)
— others	(2,973)	(1,580)	(2,353)	(951)	(814)	(281)	(2,020)	(43)	—	(11,015)
Impairment losses charge	(652)	(257)	(1,291)	(373)	(125)	(194)	(95)	(1)	—	(2,988)
Profit/(loss) before tax	4,413	2,024	3,823	1,151	1,302	343	107	9	—	13,172
Capital expenditure	432	100	380	116	220	11	175	—	—	1,434

	31 December 2007									
Segment assets	331,920	180,370	400,157	118,343	91,972	32,135	558,446	651	(702,808)	1,011,186
Segment liabilities	290,160	163,985	351,995	105,395	80,262	27,447	610,107	552	(702,808)	927,095
Off-balance sheet credit commitments	82,503	36,734	66,603	36,687	13,495	7,630	16,934	—	—	260,586

33 Segment reporting (Continued)

(b) Geographical segments (Continued)

	2006									
	Yangtze River Delta	Pearl River Delta and West Strait	Bohai Rim	Central	Western	Northeastern	Headquarters	Hong Kong	Elimination	Total
External net interest income	5,010	1,763	2,806	1,420	1,565	507	3,369	33	—	16,473
Internal net interest income/ (expense)	212	564	1,778	125	(65)	(17)	(2,564)	(33)	—	—
Net interest income	5,222	2,327	4,584	1,545	1,500	490	805	—	—	16,473
Net fee and commission income	200	61	238	71	40	16	133	—	—	759
Net trading gain	140	54	227	31	9	6	(13)	—	—	454
Net gain/(loss) arising from investment securities	7	—	3	—	—	—	19	16	—	45
Other operating income/(expense)	70	21	43	10	6	2	(26)	70	—	196
Operating income	5,639	2,463	5,095	1,657	1,555	514	918	86	—	17,927
General and administrative expenses										
— depreciation and amortisation	(181)	(58)	(142)	(41)	(41)	(17)	(228)	—	—	(708)
— others	(2,333)	(1,142)	(1,788)	(670)	(603)	(226)	(1,752)	(37)	—	(8,551)
Impairment losses charge	(88)	(78)	(819)	(285)	(232)	(119)	(45)	—	—	(1,666)
Profit/(loss) before tax	3,037	1,185	2,346	661	679	152	(1,107)	49	—	7,002
Capital expenditure	269	77	118	43	131	18	96	9	—	761

	31 December 2006									
Segment assets	203,715	104,489	261,135	68,851	59,631	32,561	264,594	1,107	(289,360)	706,723
Segment liabilities	200,377	108,868	262,736	68,438	58,904	31,953	232,103	1,010	(289,360)	675,029
Off-balance sheet credit commitments	64,557	20,318	54,203	26,801	14,593	6,688	8,412	—	—	195,572

34 Derivatives

Derivatives include forward, swap and option transactions undertaken by the Group in the foreign exchange and interest rate markets. The Group, through the operations of its branch network, acts as an intermediary between a wide range of customers for structuring deals to produce risk management products to suit individual customer needs. These positions are actively managed through entering back to back deals with external parties to ensure the Group's net exposures are within acceptable risk levels. The Group also uses derivatives (principally foreign exchange options and swaps, and interest rate swaps) in the management of its own asset and liability portfolios and structural positions.

The following tables provide an analysis of the notional amounts of derivatives of the Group by relevant maturity groupings based on the remaining periods to settlement and the corresponding fair values at the balance sheet date. The notional amounts of the derivatives indicate the volume of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

	31 December 2007						
	Notional amounts with remaining life of					Fair values	
	Less than three months	Between three months and one year	Between one year and five years	More than five years	Total	Assets	Liabilities
Interest rate derivatives	**45,327**	**64,572**	**19,913**	**7,536**	**137,348**	**947**	**(312)**
Currency derivatives	**66,747**	**39,980**	**6,580**	**—**	**113,307**	**1,093**	**(1,600)**
Credit derivatives	**—**	**—**	**259**	**197**	**456**	**9**	**(2)**
Total	**112,074**	**104,552**	**26,752**	**7,733**	**251,111**	**2,049**	**(1,914)**

34 Derivatives (Continued)

	31 December 2006						
	Notional amounts with remaining life of					Fair values	
	Less than three months	Between three months and one year	Between one year and five years	More than five years	Total	Assets	Liabilities
Interest rate derivatives	18,603	45,405	26,497	4,474	94,979	250	(339)
Currency derivatives	38,845	11,781	2,227	60	52,913	200	(236)
Credit derivatives	—	160	80	320	560	2	(1)
Total	57,448	57,346	28,804	4,854	148,452	452	(576)

The replacement costs and credit risk weighted amounts in respect of these derivatives are as follows. These amounts have taken into account the effects of bilateral netting arrangements.

Replacement costs

	31 December 2007	31 December 2006
Interest rate derivatives	**947**	250
Currency derivatives	**1,093**	200
Credit derivatives	**9**	2
Total	**2,049**	452

Replacement cost represents the cost of replacing all contracts which have a positive value when marked to market. Replacement cost is a close approximation of the credit risk for these derivative contracts as at the balance sheet date.

34 Derivatives (Continued)

Credit risk weighted amounts

	31 December 2007	31 December 2006
Interest rate derivatives	**261**	180
Currency derivatives	**1,166**	325
Credit derivatives	**29**	96
Total	**1,456**	601

The credit risk weighted amount has been computed in accordance with the rules set by the CBRC, and depends on the status of the counterparty and the maturity characteristics of the instrument.

35 Financial risk management

This section presents information about the Group's exposure to and its management and control of risks, in particular the primary risks associated with its use of financial instruments:

Credit risk: the loss resulting from customer or counterparty default and arising on credit exposure in all forms, including settlement risk.

Market risk: the exposure to market variables such as interest rates, exchange rates and equity markets.

Liquidity risk: where Group is unable to meet its payment obligations when due, or that it is unable, on an ongoing basis, to borrow funds in the market on an unsecured, or even secured basis at an acceptable price to fund actual or proposed commitments.

Operational risk: the risk arising from matters such as non-adherence to systems and procedures or from fraud resulting in financial or reputation loss.

35 Financial risk management (Continued)

The Group has established policies and procedures to identify and analyse these risks, to set appropriate risk limits and controls, and to constantly monitor the risks and limits by means of reliable and up-to-date management information systems. The Group regularly modifies and enhances its risk management policies and systems to reflect changes in markets, products and best practice risk management processes. Internal auditors also perform regular audits to ensure compliance with policies and procedures.

(a) Credit risk

This category includes credit and counterparty risks from loans and advances, issuer risks from the securities business, counterparty risks from trading activities, and country risks. The Group identifies and manages this risk through its target market definitions, credit approval process, post-disbursement monitoring and remedial management procedures.

In addition to underwriting standards, the principal means of managing credit risk is the credit approval process. The Group has policies and procedures to evaluate the potential credit risk of a particular counterparty or transaction and to approve the transaction.

The Group undertakes ongoing credit analysis and monitoring at several levels. The policies are designed to promote early detection of counterparty, industry or product exposures that require special monitoring. The Risk Management Committee monitors overall portfolio risk as well as individual problem loans, both actual and potential, on a regular basis.

In respect of the loan portfolio, the Group adopts a risk-based loan classification methodology and classifies loans into five categories: normal, special-mention, substandard, doubtful and loss, in accordance with the guidelines issued by the PBOC and the CBRC.

35 Financial risk management (Continued)

(a) Credit risk (Continued)

The core definitions of the five categories of loans and advances are set out below:

Normal	Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
Special mention	Borrowers are able to service their loans currently, although repayment may be adversely affected by specific factors.
Substandard	Borrowers' abilities to service their loans are in question as they cannot rely entirely on normal business revenues to repay principal and interest. Losses may ensue even when collateral or guarantees are invoked.
Doubtful	Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collateral or guarantees are invoked.
Loss	Only a small portion or no principal and interest can be recovered after taking all possible measures and exhausting all legal remedies.

The Group applies a series of criteria in determining the classification of loans. The loan classification criteria focuses on a number of factors, including (i) the borrower's ability to repay the loan; (ii) the borrower's repayment history; (iii) the borrower's willingness to repay; (iv) the net realisable value of any collateral; and (v) the prospect for the support from any financially responsible guarantor. The Group also takes into account the length of time for which payments of principal and interest on a loan are overdue. In general, unsecured loans with principal or interest overdue for more than 90 days and secured loans with principal or interest overdue for more than 180 days are classified at substandard or below.

The Group's retail credit policy and approval process are designed for the fact that there are high volumes of relatively homogeneous, small value transactions in each retail loan category. Because of the nature of retail banking, the credit policies are based primarily on statistical analyses of risks with respect to different products and types of customers. The Group monitors its own and industry experience to determine and periodically revise product terms and desired customer profiles.

35 Financial risk management (Continued)

(a) Credit risk (Continued)

The risks involved in credit-related commitments and contingencies are essentially the same as the credit risk involved in extending loan facilities to customers. These transactions are, therefore, subject to the same credit application, portfolio maintenance and collateral requirements as for customers' application for loans.

Concentration of credit risk exists when changes in geographic, economic or industry factors similarly affect the Group's counterparties whose aggregate credit exposure is material in relation to the Group's total exposures. The Group's portfolio of financial instruments is diversified along industry, geographic and product sectors.

(i) Maximum credit risk exposure

The maximum exposure to credit risk at the balance sheet date without taking into consideration of any collateral held or other credit enhancement is represented by the carrying amount of each financial assets in the balance sheet after deducting any impairment allowance. A summary of the maximum exposure is as follows:

	31 December 2007	31 December 2006
Balances with central banks	**205,058**	88,031
Amount due from banks and non-bank financial institutions	**55,851**	43,250
Loans and advances to customers	**568,686**	453,381
Trading debt securities	**6,500**	4,725
Investment debt securities	**152,893**	99,362
Derivatives	**2,049**	452
Other financial assets	**4,434**	2,466
Subtotal	**995,471**	691,667
Credit commitments	**260,586**	195,572
Maximum credit risk exposure	**1,256,057**	887,239

35 Financial risk management (Continued)

(a) Credit risk (Continued)

(ii) Distribution by credit exposure

	31 December 2007		
	Loans and advances to customers	**Amount due from banks and non-bank financial institutions**	**Investments**
Impaired			
— Individually assessed			
Carrying amount	**8,004**	**171**	**31**
Allowance for impairment	**(5,421)**	**(146)**	**(15)**
Net balance	**2,583**	**25**	**16**
— Collectively assessed			
Carrying amount	**488**	**—**	**—**
Allowance for impairment	**(299)**	**—**	**—**
Net balance	**189**	**—**	**—**

35 Financial risk management (Continued)

(a) Credit risk (Continued)

(ii) Distribution by credit exposure (Continued)

	31 December 2007		
	Loans and advances to customers	Amount due from banks and non-bank financial institutions	Investments
Past due but not impaired			
Carrying amount	2,737	—	—
Within which			
— Less than 90 days	2,524	—	—
— 90–365 days	213	—	—
— Over 365 days	—	—	—
Allowance for impairment (collectively assessed)	(65)	—	—
Net balance	2,672	—	—
Neither past due nor impaired			
Carrying amount	566,799	55,826	159,832
Allowance for impairment (collectively assessed)	(3,557)	—	—
Net balance	563,242	55,825	159,832
Net balance of total assets	568,686	55,851	159,848

35 Financial risk management (Continued)

(a) Credit risk (Continued)

(ii) Distribution by credit exposure (Continued)

	31 December 2006		
	Loans and advances to customers	Amount due from banks and non-bank financial institutions	Investments
Impaired			
— Individually assessed			
Carrying amount	11,151	357	278
Allowance for impairment	(6,859)	(305)	(223)
Net balance	4,292	52	55
— Collectively assessed			
Carrying amount	414	—	—
Allowance for impairment	(264)	—	—
Net balance	150	—	—

35 Financial risk management (Continued)

(a) Credit risk (Continued)

(ii) Distribution by credit exposure (Continued)

	31 December 2006		
	Loans and advances to customers	Amount due from banks and non-bank financial institutions	Investments
Past due but not impaired			
Carrying amount	3,128	—	—
Within which			
— Less than 90 days	2,102	—	—
— 90–365 days	947	—	—
— Over 365 days	79	—	—
Allowance for impairment (collectively assessed)	(85)	—	—
Net balance	3,043	—	—
Neither past due nor impaired			
Carrying amount	448,474	43,198	104,369
Allowance for impairment (collectively assessed)	(2,578)	—	—
Net balance	445,896	43,198	104,369
Net balance of total assets	453,381	43,250	104,424

Note: The allowances for impairment losses for amounts due from banks and other financial institutions are individually assessed. As at 31 December 2007, the above loans and advances which were overdue but not impaired and which were subject to individual assessment were RMB377 million. The covered portion and uncovered portion of these loans and advances were RMB116 million and RMB261 million respectively. The fair value of collaterals held against these loans and advances amounted to RMB210 million. The fair value of collaterals was estimated by management based on the latest available external valuations adjusted by taking into account the current realization experience as well as market situation.

35 Financial risk management (Continued)

(a) Credit risk (Continued)

(iii) Loans and advances to customers and the balance secured by collaterals analysed by economic sector concentrations at the balance sheet date:

	31 December 2007			31 December 2006		
		%	**Loans and advances secured by collaterals**		%	Loans and advances secured by collaterals
Corporate loans						
— Manufacturing	**147,762**	**25.6**	**43,432**	108,539	23.4	25,920
— Transportation, storage and post services	**63,156**	**10.9**	**19,493**	35,933	7.7	6,775
— Production and supply of electric power, gas and water	**44,422**	**7.7**	**7,759**	38,022	8.2	7,534
— Wholesale and retail	**42,239**	**7.3**	**17,394**	33,468	7.2	12,051
— Real estate	**41,741**	**7.2**	**28,733**	28,796	6.2	19,359
— Rent and business services	**34,793**	**6.0**	**10,036**	29,375	6.4	8,042
— Water, environment and public utility management	**28,324**	**4.9**	**5,704**	26,915	5.8	6,235
— Construction	**22,199**	**3.8**	**4,721**	23,364	5.1	6,739
— Public management and social organizations	**8,131**	**1.4**	**1,156**	10,468	2.3	1,677
— Financing	**1,512**	**0.3**	**306**	3,107	0.7	900
— Other customers	**34,061**	**5.9**	**4,576**	31,169	6.7	4,484
Subtotal	**468,340**	**81.0**	**143,310**	369,156	79.7	99,716
Personal loans	**76,089**	**13.2**		48,375	10.4	
Discounted bills	**33,599**	**5.8**		45,636	9.9	
Gross loans and advances to customers	**578,028**	**100.0**		463,167	100.0	
Less: Impairment allowances	**(9,342)**			(9,786)		
Net loans and advances to customers	**568,686**			453,381		

35 Financial risk management (Continued)

(a) Credit risk (Continued)

(iii) Loans and advances to customers and the balance secured by collaterals analysed by economic sector concentrations at the balance sheet date: (Continued)

Impaired loans and individual and collective impairment allowances in respect of economic sectors which constitute 10% or more of total loans and advances to customers are as follows:

	31 December 2007				
	Impaired loans and advances	**Individual impairment allowances**	**Collective impairment allowances**	**Impairment charged to income statement during the year**	**Impaired loan written off during the year**
Manufacturing	**4,051**	**2,833**	**1,026**	**1,366**	**848**
Transportation, storage and posting	**65**	**50**	**456**	**196**	**30**

	31 December 2006				
	Impaired loans and advances	Individual impairment allowances	Collective impairment allowances	Impairment charged to income statement during the year	Impaired loan written off during the year
Manufacturing	4,780	2,727	711	813	1,063
Transportation, storage and posting	156	103	239	74	274

35 Financial risk management (Continued)

(a) Credit risk (Continued)

(iv) Loans and advances to customers and the balance secured by collaterals analysed by geographical sector risk concentrations at the balance sheet date:

	31 December 2007			31 December 2006		
		%	**Loans Secured by Collaterals**		%	Loans Secured by Collaterals
Yangtze River Delta	**182,058**	**31.5**	**66,350**	146,784	31.7	49,031
Bohai Rim (including Headquarters)	**169,249**	**29.3**	**53,816**	138,310	29.9	36,245
Pearl River Delta and West Strait	**91,258**	**15.8**	**39,985**	68,230	14.7	26,079
Central	**60,410**	**10.5**	**19,529**	46,704	10.1	13,117
Western	**55,780**	**9.7**	**27,991**	43,820	9.5	15,825
Northeastern	**19,065**	**3.2**	**6,631**	19,141	4.1	5,502
Hong Kong	**208**	**0.0**	**10**	178	0.0	—
Total	**578,028**	**100.0**	**214,312**	463,167	100.0	145,799

See Note 33(b) for the definitions of geographical segments.

35 Financial risk management (Continued)

(a) Credit risk (Continued)

(iv) Loans and advances to customers and the balance secured by collaterals analysed by geographical sector risk concentrations at the balance sheet date: (Continued)

Impaired loans and individual and collective impairment allowances in respect of geographic sectors which constitute 10% or more of total advances to customers are as follows:

	31 December 2007			31 December 2006		
	Impaired loans and advances	**Individual impairment allowances**	**Collective impairment allowances**	Impaired loans and advances	Individual impairment allowances	Collective impairment allowances
Yangtze River Delta	**852**	**488**	**1,160**	756	257	863
Bohai Rim (including Headquarters)	**4,114**	**2,720**	**1,307**	5,091	2,915	967
Pearl River Delta and West Strait	**1,878**	**1,057**	**581**	3,977	2,806	451
Central	**772**	**638**	**381**	816	496	272
	7,616	**4,903**	**3,429**	10,640	6,474	2,553

(b) Market risk

Market risk arises on all market risk sensitive financial instruments, including securities, foreign exchange contracts, equity and derivative instruments, as well as from balance sheet or structural positions. Market risk arises from adverse movement in market rates including interest rates, foreign exchange rates and stock prices etc. as well as their volatility. Market risk would arise from both the Group's trading and non-trading business. The objective of market risk management is to avoid excessive exposure of earnings and equity to loss and to reduce the Group's exposure to the volatility inherent in financial instruments.

35 Financial risk management (Continued)

(b) Market risk (Continued)

The Market Risk Committee is responsible for formulating the Group's market risk management policies and procedures, setting risk exposure limits and approving new products. The Budget and Finance Department is responsible for the day-to-day tasks of managing market risk, including formulating procedures to identify, assess, measure and control market risks. The Treasury and Capital Markets Department is responsible for managing the Group's investment portfolios, conducting proprietary and customer-driven transactions, implementing market risk management policies and rules and ensuring that risk levels are within set limits.

The use of derivatives for proprietary trading and their sale to customers as risk management products is an integral part of the Group's business activities. These instruments are also used to manage the Group's own exposures to market risk as part of its asset and liability management process. The principal derivative instruments used by the Group are interest and foreign exchange rate related contracts, which are primarily over-the-counter derivatives.

Sensitivity analysis and foreign currency exposure analysis are the key methods used by the Group to measure and monitor the market risk of its trading business with Value-at-Risk ("VaR") as a supplementary method. Gap analysis is the key method used by the Group to monitor the market risk of its non-trading business.

The Group applies a wide range of sensitivity analyses to assess the potential impact on the Group's earnings as a result of a set of forward-looking movements in market prices and the result is regularly reviewed.

Foreign currency exposure analysis is a method to measure the effect on the Group's net earnings by foreign exchange rate changes. The Group calculates individual foreign currency exposure for both net spot and net forward positions. All the individual foreign currency exposures are then aggregated to form an overall exposure. Foreign currency exposure limits are set for individual currencies as well as the overall level. The Group also distinguishes between trading and non-trading foreign currency exposures.

VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The Group's Treasury and Capital Markets Department calculates interest rate VaR using historical movement in market rates and prices, at 99% confidence level, with a 10-day holding period on its foreign currency denominated investments.

35 Financial risk management (Continued)

(b) Market risk (Continued)

Gap analysis is a technique to project future cash flows in order to quantify the differences, for a range of future dates, between assets and liabilities.

Currently, the Group is upgrading its present market risk management information system to monitor its overall market risk through new Assets and Liability Management (ALM) and Fund Transfer Pricing (FTP) systems.

The Group does not actively trade in financial instruments and, in the opinion of the directors, the market risk related to trading activities to which the Group is exposed is not material. Accordingly, no quantitative market risk disclosures have been prepared.

(c) Interest rate risk

The Group's interest rate exposures mainly comprise those originating in its commercial banking structural interest rate exposure, and trading positions. The Budget and Finance Department is responsible for overall interest rate risk management.

The structural interest rate risk primarily results from the timing differences in the repricing of interest-bearing assets, liabilities and commitments. The Budget and Finance Department manages the structural interest rate risk primarily through gap analysis and interest rate sensitivity analysis.

The majority of interest rate risk from the Group's trading positions arises from the Treasury's investment portfolios. Sensitivity related limits such as Price Value of a Basis Point (PVBP) and duration, as well as stop loss limits and concentration limit, are the main tools adopted by the Budget and Finance Department to manage trading interest rate risk.

Interest rate risk limits are determined by the Market Risk Committee, which is comprised of senior management. The Budget and Finance Department monitors interest rate risk and reports to the Market Risk Committee on both a regular and ad hoc basis as the need arises.

The following tables indicate the effective interest rates for the year and the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities at the balance sheet date.

35 Financial risk management (Continued)

(c) Interest rate risk (Continued)

	31 December 2007						
	Effective interest rate (note (i))	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one and five years	More than five years
Assets							
Cash and balances with central bank	1.70%	**209,399**	**4,341**	**205,058**	**—**	**—**	**—**
Amounts due from banks and other financial institutions	3.54%	**55,851**	**—**	**54,018**	**1,394**	**439**	**—**
Loans and advances to customers (note (ii))	6.11%	**568,686**	**—**	**362,860**	**192,181**	**12,017**	**1,628**
Investments	3.38%	**159,848**	**455**	**55,796**	**44,936**	**40,709**	**17,952**
Others	—	**17,402**	**17,402**	**—**	**—**	**—**	**—**
Total assets		**1,011,186**	**22,198**	**677,732**	**238,511**	**53,165**	**19,580**
Liabilities							
Amounts due to central bank	5.03%	**415**	**—**	**365**	**50**	**—**	**—**
Amounts due to banks and other financial institutions	1.86%	**112,587**	**—**	**111,184**	**764**	**—**	**639**
Deposits from customers	1.98%	**787,211**	**8,168**	**675,275**	**84,183**	**15,536**	**4,049**
Subordinated debts/bonds issued	4.90%	**12,000**	**—**	**6,000**	**—**	**—**	**6,000**
Others	—	**14,882**	**14,882**	**—**	**—**	**—**	**—**
Total liabilities		**927,095**	**23,050**	**792,824**	**84,997**	**15,536**	**10,688**
Asset-liability gap		**84,091**	**(852)**	**(115,092)**	**153,514**	**37,629**	**8,892**

35 Financial risk management (Continued)

(c) Interest rate risk (Continued)

	31 December 2006						
	Effective interest rate (note (i))	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one and five years	More than five years
Assets							
Cash and balances with central bank	1.54%	90,620	2,589	88,031	—	—	—
Amounts due from banks and other financial institutions	2.73%	43,250	—	39,622	2,935	693	—
Loans and advances to customers (note (ii))	5.33%	453,381	—	223,558	225,435	3,557	831
Investments	3.37%	104,424	337	28,778	51,797	12,685	10,827
Others	—	15,048	15,048	—	—	—	—
Total assets		706,723	17,974	379,989	280,167	16,935	11,658
Liabilities							
Amounts due to central bank	5.10%	201	—	28	173	—	—
Amounts due to banks and other financial institutions	1.91%	36,166	—	33,921	1,378	211	656
Deposits from customers	1.96%	618,412	4,190	489,467	107,450	14,021	3,284
Subordinated debts/bonds issued	4.66%	12,000	—	6,000	—	—	6,000
Others	—	8,250	8,250	—	—	—	—
Total liabilities		675,029	12,440	529,416	109,001	14,232	9,940
Asset-liability gap		31,694	5,534	(149,427)	171,166	2,703	1,718

Notes: (i) Effective interest rate represents the ratio of interest income/expense to average interest bearing assets/liabilities.

(ii) For loans and advances to customers, the above "Less than three months" category includes overdue amounts (net of allowances for impairment losses) of RMB5,102 million as at 31 December 2007 (as at 31 December 2006: RMB6,838 million). Overdue amounts represent loans, of which the whole or part of the principals was overdue, or interest was overdue for more than 90 days but for which principal was not yet due.

35 Financial risk management (Continued)

(c) Interest rate risk (Continued)

The Group uses sensitivity analysis to measure the potential effect of changes in interest rates on the Group's net interest income. The following table sets forth the results of the Group's interest rate sensitivity analysis at 31 December 2007 and 31 December 2006.

	31 December 2007		31 December 2006	
	Change in interest rates (in basis point)		Change in interest rates (in basis point)	
	(100)	**100**	(100)	100
Increase/(decrease) in annualized net interest income (in millions of RMB)	**—**	**—**	211	(211)

35 Financial risk management (Continued)

(c) Interest rate risk (Continued)

This sensitivity analysis is based on a static interest rate risk profile of the Group's non-derivative assets and liabilities and certain simplified assumptions. The analysis measures only the impact of changes in the interest rates within one year, showing how annualized interest income would have been affected by repricing of the Group's non-derivative assets and liabilities within the one-year period. The analysis is based on the following assumptions: (i) all assets and liabilities that reprice or mature within three months and after three months but within one year reprice or mature at the beginning of the respective periods (i.e., all the assets and liabilities that reprice or mature within three months reprice or mature immediately, and all the assets and liabilities that reprice or mature after three months but within one year reprice or mature immediately after three months), (ii) there is a parallel shift in the yield curve and in interest rates, and (iii) there are no other changes to the portfolio, all positions will be retained and rolled over upon maturity. The analysis does not take into account the effect of risk management measures taken by management. Due to the assumptions adopted, actual changes in the Group's net interest income resulting from increases or decreases in interest rates may differ from the results of this sensitivity analysis.

(d) Currency risk

The Group's foreign currency positions arise from foreign exchange dealing, commercial bank operations and foreign currency capital related structural exposures. The foreign currency exposures arising in branch daily operations are aggregated to Treasury and Capital Markets Department through back to back transactions.

The Treasury and Capital Markets Department manages the currency risk within the limits approved by the Market Risk Committee by closing the exposure positions through external market transactions.

The Group manages other currency risk by spot and forward foreign exchange transactions and matching its foreign currency denominated assets with corresponding liabilities in the same currencies.

35 Financial risk management (Continued)

(d) Currency risk (Continued)

The exposures at the balance sheet date were as follows:

	31 December 2007			
	RMB	USD	Others	Total
Assets				
Cash and balances with central bank	206,170	2,860	369	209,399
Amounts due from banks and other financial institutions	44,904	7,720	3,227	55,851
Loans and advances to customers	538,818	28,598	1,270	568,686
Investments	119,882	34,843	5,123	159,848
Others	14,540	2,179	683	17,402
Total assets	924,314	76,200	10,672	1,011,186
Liabilities				
Amounts due to central bank	415	—	—	415
Amounts due to banks and other financial institutions	102,381	8,759	1,447	112,587
Deposits from customers	735,558	42,236	9,417	787,211
Subordinated debts/bonds issued	12,000	—	—	12,000
Others	13,198	1,309	375	14,882
Total liabilities	863,552	52,304	11,239	927,095
Net on-balance sheet position	60,762	23,896	(567)	84,091
Credit commitments	213,043	39,505	8,038	260,586
Derivatives (note(i))	17,181	(17,052)	342	471

35 Financial risk management (Continued)

(d) Currency risk (Continued)

	31 December 2006			
	RMB	USD	Others	Total
Assets				
Cash and balances with central bank	87,300	2,938	382	90,620
Amounts due from banks and other financial institutions	34,741	6,733	1,776	43,250
Loans and advances to customers	436,418	15,638	1,325	453,381
Investments	72,569	26,321	5,534	104,424
Others	13,763	977	308	15,048
Total assets	644,791	52,607	9,325	706,723
Liabilities				
Amounts due to central bank	201	—	—	201
Amounts due to banks and other financial institutions	31,332	3,506	1,328	36,166
Deposits from customers	562,106	48,903	7,403	618,412
Subordinated debts/bonds issued	12,000	—	—	12,000
Others	7,862	166	222	8,250
Total liabilities	613,501	52,575	8,953	675,029
Net on-balance sheet position	31,290	32	372	31,694
Credit commitments	165,687	23,010	6,875	195,572
Derivatives (note (i))	3,307	1,645	(800)	4,152

Note: (i) The derivatives represent the net notional amount of currency derivatives, including undelivered foreign exchange spot, foreign exchange forward, foreign exchange swap and currency option.

35 Financial risk management (Continued)

(d) Currency risk (Continued)

The Group uses sensitivity analysis to measure the potential effect of changes in foreign currency exchange rates on the Group's net profit and loss. The following table sets forth, as at 31 December 2007 and 31 December 2006, the results of the Group's interest rate sensitivity analysis on the assets and liabilities at the same date.

	31 December 2007		31 December 2006	
	Change in foreign currency exchange rate (in basis point)		Change in foreign currency exchange rate (in basis point)	
	(100)	**100**	(100)	100
(Decrease)/increase in annualized net profit (in millions of RMB)	**(9)**	**9**	(2)	2

This sensitivity analysis is based on a static foreign exchange exposure profile of assets and liabilities and certain simplified assumptions. The analysis is based on the following assumptions: (i) the foreign exchange sensitivity is the gain and loss recognised as a result of 100 basis point fluctuation in the foreign currency exchange rates against RMB , (ii) the exchange rates against RMB for all foreign currencies change in the same direction simultaneously, and (iii) the foreign exchange exposures calculated include both spot foreign exchange exposures, forward foreign exchange exposures and options, and all positions will be retained and rolled over upon maturity. The analysis does not take into account the effect of risk management measures taken by management. Due to the assumptions adopted, actual changes in the Group's net foreign exchange gain and loss resulting from increases or decreases in foreign exchange rates may differ from the results of this sensitivity analysis.

35 Financial risk management (Continued)

(e) Liquidity risk

The purpose of liquidity management is to ensure sufficient cash flows for the Group to meet all financial commitment and to capitalise on opportunities for business expansion. This includes the Group's ability to meet deposit withdrawals either on demand or at contractual maturity, to repay borrowings in full amounts as they mature, or to meet other obligations for payments, to comply with the statutory liquidity ratio, and to make new loans and investments as opportunities arise.

Liquidity is managed on a daily basis according to the Group's liquidity objectives by the Treasury under the direction of the Asset and Liability Committee. It is responsible for ensuring that the Group has adequate liquidity for RMB and foreign currency operations.

The Group manages liquidity risk by holding liquid assets (including deposits at PBOC, other short term funds and securities) of appropriate quality and quantity to ensure that short term funding requirements are covered within prudent limits. Adequate standby facilities are maintained to provide strategic liquidity to meet unexpected and material demand for payments in the ordinary course of business.

The Group regularly stress tests its liquidity position.

In terms of measuring liquidity risk, the Group principally uses liquidity gap analysis. Different scenarios are applied to assess the impact on liquidity for proprietary trading and client businesses.

35 Financial risk management (Continued)

(e) Liquidity risk (Continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the balance sheet date.

	31 December 2007						
	Repayable on demand	**Less than three months**	**Between three months and one year**	**Between one and five years**	**More than five years**	**Indefinite (note(i))**	**Total**
Assets							
Cash and balances with central bank	38,401	86,030	—	—	—	84,968	209,399
Amounts due from banks and other financial institutions	15,327	38,666	1,394	439	—	25	55,851
Loans and advances to customers	1,838	118,718	256,261	108,397	79,865	3,607	568,686
Investment securities (note (iii))	4,350	31,064	32,149	55,065	36,749	471	159,848
Others	698	2,378	2,209	991	303	10,823	17,402
Total assets	60,614	276,856	292,013	164,892	116,917	99,894	1,011,186
Liabilities							
Amounts due to central bank	—	365	50	—	—	—	415
Amounts due to banks and other financial institutions	97,667	13,517	764	—	639	—	112,587
Deposits from customers	409,691	249,362	98,883	25,226	4,049	—	787,211
Subordinated debts/bonds issued	—	—	—	6,000	6,000	—	12,000
Others	1,533	7,858	2,003	1,437	1,703	348	14,882
Total liabilities	508,891	271,102	101,700	32,663	12,391	348	927,095
Long/(short) position	(448,277)	5,754	190,313	132,229	104,526	99,546	84,091

35 Financial risk management (Continued)

(e) Liquidity risk (Continued)

	31 December 2006						
	Repayable on demand	Less than three months	Between three months and one year	Between one and five years	More than five years	Indefinite (note (i))	Total
Cash and balances with central bank	32,727	15,970	—	—	—	41,923	90,620
Amounts due from banks and other financial institutions	10,008	29,563	2,935	692	—	52	43,250
Loans and advances to customers	1,377	93,627	196,211	96,211	59,842	6,113	453,381
Investments (note (ii))	434	14,753	35,304	32,333	21,208	392	104,424
Others	382	1,042	819	520	209	12,076	15,048
Total assets	44,928	154,955	235,269	129,756	81,259	60,556	706,723
Liabilities							
Amounts due to central bank	—	28	173	—	—	—	201
Amounts due to banks and other financial institutions	27,160	6,761	1,378	211	656	—	36,166
Deposits from customers	293,084	160,127	119,650	41,877	3,674	—	618,412
Subordinated debts/bonds issued	—	—	—	6,000	6,000	—	12,000
Others	205	6,673	1,137	33	48	154	8,250
Total liabilities	320,449	173,589	122,338	48,121	10,378	154	675,029
Long/(short) position	(275,521)	(18,634)	112,931	81,635	70,881	60,402	31,694

Notes: (i) For cash and balances with the central bank, the indefinite period amount represents statutory deposit reserves and fiscal balances maintained with the PBOC For amounts due from banks and non-bank financial institutions, loans and advances to customers, receivables and debt securities within investments represents the balances being impaired or overdue for more than one month. Equity investments are also reported under indefinite period.

(ii) For financial assets at fair value through profit or loss, derivatives and available-for-sale investments, the remaining term to maturity does not represent the Group's intended holding period.

35 Financial risk management (Continued)

(f) Operational risk

Operational risk includes the risk of direct or indirect loss due to an event or action causing failure of technology, processes, infrastructure and personnel, and other risks having an operational impact.

The Group manages this risk through a control-based environment by establishing a framework of policies and procedures in order to identify, assess, control, manage and report risks. The framework covers all business functions ranging from finance, credit, accounting, settlement, savings, treasury, intermediary business, computer applications and management, special assets resolution and legal affairs. This has allowed the Group to identify and address comprehensively the operational risk inherent in all key products, activities, processes and systems. Key controls include:

— authorisation limits for various business activities to branches and functions are delegated after consideration of their respective business scope, risk management capabilities and credit approval procedures. Such authorities are revised on a timely basis to reflect changes in market conditions and business development and risk management needs;

— the use of the single legal responsibility framework and strict disciplinary measures in order to ensure accountability;

— systems and procedures to identify, control and report on the major risks: credit, market, liquidity and operational;

35 Financial risk management (Continued)

(f) Operational risk (Continued)

— promotion of a risk management culture throughout the organisation by building a team of risk management professionals, providing formal training and having an appraisal system in place, to raise the overall risk awareness among the Group's employees;

— the Accounting Department was appointed to be responsible for overseeing that cash management and account management are in compliance with the relevant regulations, and for improving training on anti-money laundering to ensure our staff are well-equipped with the necessary knowledge and basic skills;

— the review and approval by senior management of comprehensive financial and operating plans which are prepared by branches;

— the assessment of individual branches' financial performance against the comprehensive financial and operating plan; and

— the maintenance of contingent facilities (including backup systems and disaster recovery schemes) to support all major operations, especially back office operations, in the event of an unforeseen interruption. Insurance cover is arranged to mitigate potential losses associated with certain operational events.

In addition to the above, the Bank's Internal Audit Department, which directly reports to the Internal Audit Committee, examines and independently evaluates its risk management policies and procedures and internal controls. The Internal Audit Committee is under the direct supervision of the Executive Management Committee led by the President of the Bank.

The Internal Audit Committee determines the frequency and priority of audits of the Bank's different operating units and branches based on their assessment of the level of risk of those units and branches.

36 Capital management

Capital adequacy ratio management is the key part of the Bank's capital management.. The Bank calculates and discloses capital adequacy ratios since 2004 in accordance with "Regulation Governing Capital Adequacy of Commercial Banks" issued by the CBRC in February 2004, which was amended by CBRC in July and November 2007, and other relevant guidelines. These guidelines may have significant differences with the relevant requirements in Hong Kong Special Administrative Region of the PRC or other regions and countries. The capital of the Bank is analysed into core capital and supplementary capital. The core capital mainly includes paid-up share capital or ordinary shares, capital reserve, surplus reserve, retained earnings, and minority interests, after the deduction of dividends declared after the balance sheet date, as well as deductions of 100% of goodwill and 50% of unconsolidated equity investments. Supplementary capital includes general provisions and subordinated debts/bonds.

The CBRC requires that the capital adequacy ratio and core capital adequacy ratio for commercial banks shall not fall below 8% and 4% respectively. For commercial banks, supplementary capital shall not exceed 100% of core capital while long-term subordinated liabilities included in the supplementary capital should not exceed 50% of the core capital. When total positions of trading accounts exceed 10% of the on- and off-balance sheet total assets, or RMB8.5 billion, commercial banks must provide for market risk capital. At present, the Bank is fully compliant with legal and regulatory requirements.

Capital adequacy ratio management is a core issue of capital management. The capital adequacy ratio reflects the Bank's sound operations and risk management capability. The Bank's capital adequacy ratio management objectives are to meet the legal and regulatory requirements, and to prudently determine the capital adequacy ratio under realistic exposures with reference to the capital adequacy ratio levels of leading global banks and the Bank's operating situations.

The Bank considers its strategic development plans, business expansion plans and risk variables in conducting its scenario analysis, stress testing and other measures to forecast, plan and manage capital adequacy ratio.

The Bank's policies in respect of capital management and allocation are reviewed regularly by the board of directors.

36 Capital management (Continued)

The capital adequacy ratios and the related components of the Bank as at 31 December 2007 and 2006 calculated based on the financial statements under relevant accounting rules and regulations in the PRC were as follows:

	31 December 2007	31 December 2006
Core capital adequacy ratio	**13.14%**	6.57%
Capital adequacy ratio	**15.27%**	9.41%
Components of capital base		
Core capital:		
— Share capital	**39,033**	31,113
— Capital reserve (note(i))	**36,916**	—
— Investment revaluation reserve	**(89)**	(7)
— Surplus reserve and general reserve	**4,560**	—
— Retained earnings	**1,519**	—
	81,939	31,106
Supplementary capital:		
— General provision for loans and advances	**3,621**	2,663
— Fair value change of trading financial assets	**101**	—
— Subordinated debts/bonds	**9,600**	10,800
Total supplementary capital	**13,322**	13,463
Total capital base before deductions	**95,261**	44,569
Deductions:		
— Unconsolidated equity investments	**90**	158
Total capital base after deductions	**95,171**	44,411
Core capital base after deductions (note(i))	**81,894**	31,027
Risk weighted assets	**623,300**	471,957

Note: (i) According to relevant regulation, 50 percent unconsolidated non-bank financial institutes' investments should be deducted when we calculate core capital base.

37 Fair value

(a) Financial assets

The Group's financial assets mainly include cash, amounts due from central bank, banks and other financial institutions, loans and advances to customers, and investments.

Amounts due from central bank, banks and other financial institutions

Amounts due from central bank, banks and other financial institutions are mainly priced at market interest rates and mature within one year. Accordingly, the carrying values approximate the fair values.

Loans and advances to customers

Loans and advances to customers are mostly priced at floating rates close to the PBOC rates. Accordingly, their carrying values approximate the fair values.

Investments

Available-for-sale investments and trading debt securities are stated at fair value in the balance sheet. The following table summarises the carrying values and the fair values of held-to-maturity debt securities which are not presented on the balance sheet at their fair values.

	Carrying values		**Fair values**	
	2007	2006	**2007**	2006
Held-to-maturity debt securities	**109,391**	68,196	**108,958**	68,453

37 Fair value (Continued)

(b) Financial liabilities

The Group's financial liabilities mainly include amounts due to banks and other financial institutions, deposits from customers and subordinated debts/bonds issued. The carrying values of financial liabilities approximated their fair values at the balance sheet date except for subordinated bonds, of which the carrying values and fair values are presented as below:

	Carrying values		Fair values	
	2007	2006	**2007**	2006
Subordinated bonds	**6,000**	6,000	**5,667**	6,163

38 Significant accounting estimates and judgments

In determining the carrying amounts of some assets and liabilities, the Group makes assumptions of the effects of uncertain future events on those assets and liabilities at the balance sheet date. These estimates involve assumptions about such items as risk adjustment to cash flows or discount rates used, future changes in salaries and future changes in prices affecting other costs. The Group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgments are also made during the process of applying the Group's accounting policies.

(a) Impairment losses on loans and advances

Loan portfolios are assessed periodically to assess whether impairment losses exist and if they exist, the amounts of impairment losses. Objective evidence for impairment includes observable data indicating that there is a measurable decrease in the estimated future cash flows identified with an individual loan. It also includes observable data indicating adverse changes in the repayment status of borrowers in the loan portfolio or national or local or economic conditions that correlate with defaults on the loans in the portfolio. The impairment loss for a loan that is individually evaluated for impairment is the decrease in the estimated future cash flow of that loan.

38 Significant accounting estimates and judgments (Continued)

(a) Impairment losses on loans and advances (Continued)

When loans and advances are collectively evaluated for impairment, the estimate is based on historical loss experience for assets with credit risk characteristics similar to the loans and advances. Historical loss experience is adjusted on the basis of the relevant observable data that reflect current economic conditions. Management review the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss experience.

(b) Impairment of available-for-sale equity investments

For available-for-sale equity investments, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. Judgment is required when determining whether a decline in fair value has been significant or prolonged. In making this judgment, the historical data on market volatility as well as in the share price of the specific equity investment are taken into account. The Group also takes into account other factors, such as industry and sector performance and financial information regarding the investee.

(c) Fair value of financial instruments

The fair values for those financial instruments, where no quoted prices from an active market exist, are established by using valuation techniques. These techniques include using recent arm's length market transactions, reference to the current fair value of similar instruments and discounted cash flow analysis and option pricing models. The Group has established a process to ensure that valuation techniques are constructed by qualified personnel and are validated and reviewed by personnel independent of the area that constructed the valuation techniques. Valuation techniques are certified before being implemented for valuation and are calibrated to ensure that outputs reflect actual market conditions. Valuation models established by the Group make the maximum use of market inputs and rely as little as possible on Group-specific data. However, it should be noted that some inputs, such as credit and counterparty risk, and risk correlations, require management estimates. Management estimates and assumptions are reviewed periodically and are adjusted if necessary.

38 Significant accounting estimates and judgments (Continued)

(d) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity investments if the Group has the intention and ability to hold them until maturity. In evaluating whether the requirements to classify a financial asset as held-to-maturity are met, management make significant judgments. Failure in correctly assessing the Group's intention and ability to hold specific investments until maturity may result in reclassification of the whole portfolio as available-for-sale.

(e) Income taxes

Determining income tax provisions involves judgment on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations.

Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised. Management's judgment is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

39 Related parties

CITIC Group, the majority shareholder of the Bank, is a state-owned company established in the PRC in 1979. CITIC Group's core businesses include operations in the financial, industrial and service industries in the PRC and internationally. The Group's related party transactions are those transactions between the Group and CITIC Group and its subsidiaries, which include CIFH, the other shareholder of the Bank.

39 Related parties (Continued)

(a) Related party transactions

During the relevant years, the Group entered into transactions with related parties in the ordinary course of its banking business including lending, investment, deposit and off-balance sheet transactions. The banking transactions were priced at the relevant market rates prevailing at the time of each transaction. Interest rates on loans and deposits are required to be set in accordance with the benchmark rates set by the PBOC.

Transactions during the relevant years and the corresponding balances outstanding at the balance sheet dates are as follows:

	2007			
	Ultimate holding company	**Fellow subsidiaries**		**Subsidiaries** (note(i))
		CIFH and its subsidiaries	**Others**	
Interest income	**50**	**6**	**96**	**20**
Fee and commission income and other income	**—**	**—**	**27**	**—**
Interest expense	**(134)**	**(4)**	**(602)**	**—**
Other service fees	**—**	**—**	**(45)**	**(27)**

	2006			
	Ultimate holding company	Fellow subsidiaries		Subsidiaries (note(i))
		CIFH and its subsidiaries	Others	
Interest income	119	4	105	33
Fee and commission income and other income	—	—	10	—
Interest expense	(68)	—	(148)	—
Management fee to CITIC Group	(750)	—	—	—
Other service fees	—	—	(82)	(21)

39 Related parties (Continued)

(a) Related party transactions (Continued)

	31 December 2007			
	Ultimate holding company	Fellow subsidiaries: CIFH and its subsidiaries	Fellow subsidiaries: Others	Subsidiaries (note(i))
Net loans and advances to customers	380	—	2,417	—
Gross amounts due from banks and other financial institutions	—	222	33	519
Less: Impairment allowances	—	—	(8)	—
Net amounts due from banks and other financial institutions	—	222	25	519
Investments	316	365	213	87
Other assets	5	1	8	4
Deposits from customers	5,191	294	3,034	3
Amounts due to banks and other financial institutions	—	—	33,554	—
Other liabilities	20	—	46	—
Off-balance sheet transactions				
Guarantees and letters of credit	308	—	21	—
Acceptances	—	—	190	—
Guarantees for loans to third parties	—	976	50	—

39 Related parties (Continued)

(a) Related party transactions (Continued)

	31 December 2006			
	Ultimate holding company	Fellow subsidiaries: CIFH and its subsidiaries	Fellow subsidiaries: Others	Subsidiaries (note(i))
Net loans and advances to customers	540	—	1,733	—
Gross amounts due from banks and other financial institutions	—	70	127	472
Less: Impairment allowances	—	—	(50)	—
Net amounts due from banks and other financial institutions	—	70	77	472
Investments	324	—	—	87
Other assets	4	—	7	4
Deposits from customers	3,089	1	2,121	4
Amounts due to banks and other financial institutions	—	—	10,963	—
Other liabilities	11	—	14	—
Off-balance sheet transactions				
Guarantees and letters of credit	372	—	11	—
Acceptances	—	—	1	—
Guarantees for loans to third parties	—	120	101	—

39 Related parties (Continued)

(a) Related party transactions (Continued)

Notes: (i) The related party transactions between the Bank and the subsidiaries are eliminated on consolidation.

(ii) The Bank sold wealth management products, which are managed by CITIC Trust, to its retail customers. During the year, CITIC Trust purchased from the Bank loans and advances to customers of RMB11,876 million at their net book value for these wealth management products. The Bank purchased back from CITIC Trust part of these loans of RMB4,720 million before the year end and another part of RMB5,770 million during the period between the year end and the date of this report.

(iii) The Bank sold performing related party loans with an aggregate outstanding principal of RMB2,000 million to another domestic commercial bank for the same amount in cash on 30 June 2006. These loans were included in loans and advances to customers before they were derecognized from the balance sheet of the Bank from the date of sale.

(iv) The Bank disposed of impaired loans due from related parties with an aggregate outstanding principal of RMB1,142 million and a net book value of RMB417 million in cash on 26 June 2006. The loans were sold in a public auction to the CITIC Group at their net book value. These loans were included in loans and advances to customers before they were derecognized from the balance sheet of the Bank from the date of sale.

(v) In June 2006, the Bank transferred equity investments with net book value of RMB10 million to CITIC Asset Management Company limited ("CAM"), a fellow subsidiary of the Bank. Included in the amount transferred, investments with net book value of RMB6 million were sold to CAM through a public auction for a cash consideration of RMB6 million; investments with net book value of RMB4 million were sold to CAM for a cash consideration of RMB4 million in accordance with an agreement signed between the Bank and CAM.

(b) Key management personnel and their close family members and related companies

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including Directors, Supervisors and Executive Officers.

39 Related parties (Continued)

(b) Key management personnel and their close family members and related companies (Continued)

The Group enters into banking transactions with key management personnel and their close family members and those companies controlled or significantly influenced by them in the normal course of business. In the opinion of the directors, other than the those disclosed as below, there are no material transactions and balances between the Group and these individuals or those companies controlled or significantly influenced by them.

The aggregate amount of relevant loans outstanding as at 31 December 2007 to Directors, supervisors and executive officers amounted to RMB26 million (as at 31 December 2006: RMB10 million).

The aggregate of the compensations in respect of Directors and Supervisors is disclosed in Note 10. The Executive Officers' compensations during the years are as follows:

	2007	2006
	RMB '000	RMB '000
Salaries and other emoluments	**5,204**	1,155
Discretionary bonuses	**25,831**	8,543
Contributions to defined contribution retirement schemes	**753**	1,192
	31,788	10,890

39 Related parties (Continued)

(c) Contributions to defined contribution retirement schemes

The Group participates in defined contribution retirement schemes organised by municipal and provincial governments for its employees in Mainland China.

The Group has also established a supplementary defined contribution plan for its qualified employees. The plan is administered by CITIC Group.

The Group is also required to make contributions to the Mandatory Provident Fund Scheme for its employees in Hong Kong at the rate set up by the local laws and regulations.

(d) Transactions with other state-owned entities in the PRC

The Group operates in an economic regime currently predominated by entities directly or indirectly owned by the PRC government through its government authorities, agencies, affiliations and other organizations ("state-owned entities").

Transactions with other state-owned entities include but are not limited to the following:

— lending and deposit taking;

— taking and placing of inter-bank balances;

— entrusted lending and other custody services;

— insurance and securities agency, and other intermediary services;

— sale, purchase, underwriting and redemption of bonds issued by other state-owned entities;

— purchase, sale and leases of property and other assets; and

— rendering and receiving of utilities and other services.

39 Related parties (Continued)

(d) Transactions with other state-owned entities in the PRC (Continued)

These transactions are conducted in the ordinary course of the Group's banking business on terms similar to those that would have been entered into with non-state-owned entities. The Group has also established its pricing strategy and approval processes for major products and services, such as loans, deposits and commission income. The pricing strategy and approval processes do not depend on whether the customers are state-owned entities or not. Having due regard to the substance of the relationships, the Directors are of opinion that none of these transactions are material related party transactions that require separate disclosure.

40 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2007

Up to the date of issue of the financial statements, a number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2007, and have not been applied in preparing these consolidated financial statements:

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretation is expected to be in the period of initial application. So far it has included that the adoption of them is unlikely to have a significant impact on the Bank's results of operations and financial position.

In addition, IFRS 8 *Operating Segments* introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Group's 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them.

IFRS 8 requires operating segments to be identified, and their amounts disclosed in the financial statements, on the same basis as internally reported for the purpose of making decisions on the allocation of an entity's resources. The Group has assessed the impact of IFRS 8 and concluded that its adoption would have no significant impact on the Group's financial statements. The Group will apply IFRS 8 for annual accounting periods beginning 1 January 2009.

40 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2007 (Continued)

IFRIC 13 *Customer Loyalty Programmes* addresses the accounting by entities that operates, or otherwise participate in, customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13 becomes mandatory on the Group's 2009 financial statements and is not expected to have any significant impact on the consolidated financial statement.

IFRIC 14 *IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirement ("MRF") and their interaction* clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of MFR. The Group has not yet determined the potential effect of the interpretation.

41 Comparative figures

Certain comparative figures have been re-classified to conform with current year's presentation.

42 Events after the Balance Sheet Date

Up to the date of this report, the Group had no material events for disclosure after the balance sheet date.

(Expressed in millions of Renminbi unless otherwise stated)

The information set out below does not form part of the unaudited financial statements, and is included herein for information purposes only.

(a) Reconciliation between the financial statements prepared under International Financial Reporting Standards ("IFRS") and relevant accounting rules and regulations in the PRC ("PRC GAAP")

Net Profit	Note	**2007**	2006
Net profit attributable to shareholders of the Bank under IFRS		**8,322**	3,858
Adjustments for depreciation and disposal arising from fixed assets and other assets revaluation	(i)	**(32)**	(132)
Net profit attributable to shareholders of the Bank shown in the financial statements under PRC GAAP		**8,290**	3,726

Equity	Note	**31 December 2007**	31 December 2006
Equity attributable to shareholders of the Bank under IFRS		**84,086**	31,689
Adjustments for difference arising from fixed assets and other assets revaluation	(i)	**50**	136
Equity attributable to shareholders of the Bank shown in the financial statements under PRC GAAP		**84,136**	31,825

Notes: (i) Adjustments for difference arising from fixed assets and other assets revaluation

Pursuant to the relevant PRC rules and regulations with respect to the restructuring of China CITIC Bank, the fixed assets and other assets (including equity investment, repossessed assets and intangible assets) of the Bank as at 31 December 2005 were revalued by China Enterprise Appraisal Company Limited on a depreciated replacement cost or a comparable market basis as appropriate. The revalued amount was adopted for these assets as deemed cost from the date of revaluation and thereafter, with the revaluation surplus being recognised in the capital reserve. The depreciation and amortization of these assets is calculated to write off the deemed cost over the estimated useful life.

In the financial statements prepared under IFRS, such assets are carried at cost less impairment losses and the revaluation surplus was not recorded accordingly, except for the property of the Bank, which is stated in the balance sheet at its revalued amount, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment losses. Increases in the carrying amount arising on the revaluation of each property are credited to revaluation reserves in equity. Decreases that offset previous increases of the same asset are charged against revaluation reserves; all other decreases are charged to the income statement. These revaluations are performed on a regular basis.

As the depreciation of equipment and amortization of other assets in the financial statements under PRC GAAP are calculated on deemed cost after revaluation, it is different from those under IFRS, which are calculated on historical cost.

(b) Liquidity ratios

	31 December 2007	31 December 2006
RMB current assets to RMB current liabilities	**38.90%**	38.66%
Foreign currency current assets to foreign currency current liabilities	**110.01%**	99.98%

The above liquidity ratios were calculated based on the financial statements under PRC GAAP with reference to the revised formula issued by the China Banking Regulatory Commission (the "CBRC") in 2006.

(c) Currency concentrations

	31 December 2007			
	US Dollars	**HK Dollars**	**Others**	**Total**
Spot assets	**76,200**	**2,184**	**8,488**	**86,872**
Spot liabilities	**(52,304)**	**(3,419)**	**(7,820)**	**(63,543)**
Forward purchases	**54,847**	**2,558**	**13,012**	**70,417**
Forward sales	**(71,982)**	**(1,311)**	**(13,834)**	**(87,127)**
Net option position	**83**	**—**	**(83)**	**—**
Net long/(short) position	**6,844**	**12**	**(237)**	**6,619**

	31 December 2006			
	US Dollars	HK Dollars	Others	Total
Spot assets	52,607	1,499	7,826	61,932
Spot liabilities	(52,575)	(2,922)	(6,031)	(61,528)
Forward purchases	24,760	1,469	7,485	33,714
Forward sales	(23,136)	(174)	(9,584)	(32,894)
Net option position	21	4	—	25
Net long/(short) position	1,677	(124)	(304)	1,249

(d) Cross-border claims

The Group is principally engaged in business operations within Mainland China, and regards all claims on third parties outside Mainland China as cross-border claims.

For the purpose of these unaudited supplementary financial information, Mainland China excludes Hong Kong Special Administrative Region of the PRC, Macau Special Administrative Region of the PRC and Taiwan.

Cross-border claims include loans and advances, balances and placements with banks and other financial institutions, holding of trade bills and certificates of deposit and investment securities.

(d) Cross-border claims (Continued)

Cross-border claims have been disclosed by different country or geographical areas. A country or geographical areas is reported where it constitutes 10% or more of the aggregate amount of cross-border claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in a region or a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose headquarters is located in another country.

	31 December 2007			
	Banks and other financial institutions	**Public sector entities**	**Others**	**Total**
Asia Pacific excluding Mainland China	**3,529**	**40**	**794**	**4,363**
— of which attributed to Hong Kong	**1,676**	**—**	**449**	**2,125**
Europe	**11,972**	**53**	**39**	**12,064**
North and South America	**12,160**	**17,682**	**583**	**30,425**
	27,661	**17,775**	**1,416**	**46,852**

	31 December 2006			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding Mainland China	4,948	—	646	5,594
— of which attributed to Hong Kong	1,911	—	251	2,162
Europe	5,555	51	57	5,663
North and South America	10,491	12,289	1,479	24,259
	20,994	12,340	2,182	35,516

(e) Overdue loans and advances to customers by geographical segments

	31 December 2007		
	Gross loans and advances	**Loans and advances overdue over 3 months**	**Impaired Loans**
Yangtze River Delta	**182,058**	**833**	**852**
Bohai Rim (include Headquarters)	**169,249**	**3,711**	**4,114**
Pearl River Delta and West Strait	**91,258**	**1,846**	**1,877**
Central	**60,410**	**781**	**772**
Western	**55,780**	**367**	**452**
Northeastern	**19,065**	**442**	**425**
Hong Kong	**208**	**—**	**—**
Total	**578,028**	**7,980**	**8,492**

	31 December 2006		
	Gross loans and advances	Loans and advances overdue over 3 months	Impaired Loans
Yangtze River Delta	146,784	746	756
Bohai Rim (including Headquarters)	138,310	5,119	5,091
Pearl River Delta and West Strait	68,230	4,013	3,977
Central	46,704	764	816
Western	43,820	500	497
Northeastern	19,141	287	428
Hong Kong	178	—	—
Total	463,167	11,429	11,565

(e) Overdue loans and advances to customers by geographical segments (Continued)

Impaired loans and advances to customers include loans and advances for which objective evidence of impairment exists and which have been assessed as bearing significant impairment losses. These loans and advances include loans and advances for which objective evidence of impairment has been identified:

— individually (including corporate loans and advances which are graded substandard, doubtful or loss (see Note 35(a) of the Group's financial statements for the core definitions of the loan classification)); or

— collectively: that is portfolios of homogeneous loans and advances (including retail loans and advances which are graded substandard, doubtful or loss).

(f) Gross amount of overdue amounts due from banks and other financial institutions and overdue loans and advances to customers

(i) Gross overdue amounts due from banks and other financial institutions

	31 December 2007	31 December 2006
Gross amounts due from banks and other financial institutions which have been overdue	**171**	357
As a percentage of total gross amounts due from banks and other financial institutions	**0.31%**	0.82%

Note: All overdue amounts have been overdue over 12 months.

(f) Gross amount of overdue amounts due from banks and other financial institutions and overdue loans and advances to customers (Continued)

(ii) Gross amounts of overdue loans and advances to customers

	31 December 2007	31 December 2006
Gross loans and advances to customers which have been overdue with respect to either principal or interest for periods of:		
— between 3 and 6 months	**438**	735
— between 6 and 12 months	**696**	1,943
— over 12 months	**6,846**	8,751
Total	**7,980**	11,429
As a percentage of total gross loans and advances to customers:		
— between 3 and 6 months	**0.08%**	0.16%
— between 6 and 12 months	**0.12%**	0.42%
— over 12 months	**1.18%**	1.89%
Total	**1.38%**	2.47%

— The above analysis represents loans and advances overdue for more than 90 days as required by the Hong Kong Monetary Authority.

— Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

— Loans and advances repayable on demand are classified as overdue when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instructions. If the loans and advances repayable on demand are outside the approved limit that was advised to the borrower, they are also considered as overdue.

— As at 31 December 2007, the loans and advances to customers of RMB7,403 million and RMB577 million of the above overdue loans and advances were subject to individual assessment and collective assessment for impairment respectively. The covered portion and uncovered portion of these individually assessed loans were RMB1,365 million and RMB6,038 million respectively. The fair value of collaterals held against these individually assessed loans and advances was RMB1,675 million. The fair value of collaterals was estimated by management based on the latest available external valuations adjusted by taking into account the current realization experience as well as market situation. The impairment allowances made against these individually assessed loans and advances were RMB5,171million.

(g) Rescheduled amounts due from banks and other financial institutions and rescheduled loans and advances to customers

(i) Rescheduled amounts due from banks and other financial institutions

The Group does not have any rescheduled amounts due from banks and other financial institutions as at 31 December 2006 and 31 December 2007

(ii) Rescheduled loans and advances to customers

	31 December 2007		31 December 2006	
		% of total loans and advances		% of total loans and advances
Rescheduled loans and advances	**5,303**	**0.92%**	4,583	0.99%
Less:				
— rescheduled loans and advances but overdue more than 90 days	**2,799**	**0.48%**	2,158	0.47%
Rescheduled loans and advances overdue less than 90 days	**2,504**	**0.44%**	2,425	0.52%

Rescheduled loans and advances are those loans and advances which have been restructured or renegotiated because of a deterioration in the financial position of the borrower, or of the inability of the borrower to meet the original repayment schedule and for which the revised repayment terms are a concession that the Group would not otherwise consider. Rescheduled loans and advances are required to be graded at a minimum of substandard and subject to an observation period of six months, until when no upgrade to a higher loan classification is considered.

(h) Non-bank Mainland China exposures

The Bank is a commercial bank incorporated in the Mainland China with its banking business primarily conducted in the Mainland. As of 31 December 2007, over 90% of the Bank's non-bank exposures arose from businesses with Mainland China entities or individual. Analyses of various types of exposures by counterparty have been disclosed in the notes to the financial statements.

Shareholdings

Listing

On 27 April, 2007, the Bank simultaneously listed in Shanghai Stock Exchange and Hong Kong Stock Exchange.

Common Share

2,301,932,654 A shares and 5,618,300,000 H shares were issued.

Dividends

The Board of Directors suggested that final dividend of RMB0.0535 per share, subject to the approval by the shareholders of the Bank at 2007 annual shareholders' general meeting.

Stock code and stock name:

A-share

Shanghai Stock Exchange	601998 CITIC bank
Reuters	601998.SS
Bloomberg	601998 CH

H-share

SEHK	0998CITIC Bank
Reuters	998.HK
Bloomberg	998 HK

Inquiry of shareholders

If shareholders want to inquire about anything concerning the shareholdings, such as share transfer, "street name" share, address redirecting and lost shares, please write a letter to the following Address:

A-share

China Securities Depository and Clearing Corporation Limited Shanghai Branch
36/F, China Insurance Mansion, No.166 Lu Jia Zui East Road, Pudong New District, Shanghai
Tel: 86-21-68870142

H-share

Computer Share Hong Kong Investor Services Limited (CHIS)
46/F, Hopewell Center, No. 183 Queen's Road East, Wan Chai, Hong Kong
Tel: 852-28658555
Fax: 852-28650990
E-mail: hkinfo@computershare.com.hk

Credit Rating

Moody's Investors Service: Long-term deposits rating is Baa2, real strength rating of financial affairs is D, rating prospect: stable
Fitch ratings: Individual rating is D, support rating is 2

Component Stock of Index

SSE180 Index
SSE 50 Index
Shanghai Composite Index
New Shanghai Composite Index
Shanghai-Shenzhen 300 Index
CSI 100 Index
CSI 800 Index
300 Industry Index (Finance)
South Well-off Index of CSI
800 Complete Profit Index of CSI

Investor Inquiry Contact

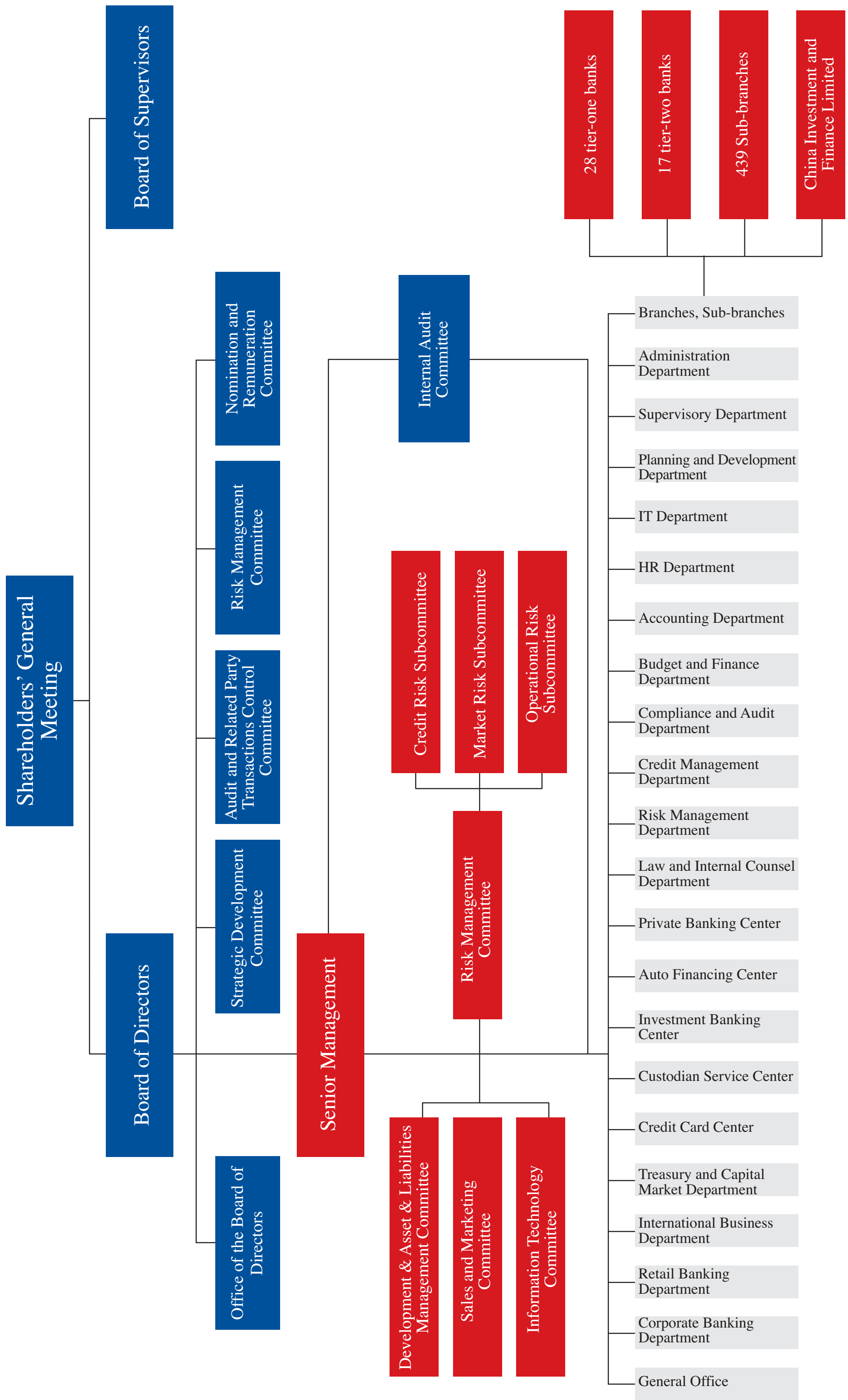
If H-Share investors have any question, please contact:
Investor Relations team of China CITIC Bank Co., Ltd.
Address: 15F, Tower C, Fuhua Mansion, No. 8 Chaoyangmen Beidajie, Dongcheng District, Beijing
Tel: 86-10-65541585
Fax: 86-10-65541230
E-mail: ir_cncb@citicbank.com

Other information

This Annual Report is available in both Chinese and English. To get a copy of the Annual Report based on international accounting standards, please write to the Bank's H-share Registrar, Computershare Hong Kong Investor Services Limited. For copies of the Annual Report based on PRC accounting standard, please find at places of business of the Bank. This Annual Report is also available (in both English and Chinese) on the following websites: bank.ecitic.com, www.sse.com.cn, www.hkexnews.hk.

If you have any queries about how to obtain copies of this Annual Report or how to access those documents on the Bank's website, please call the Bank's hotline at 86-10-65541585 and 852-28628555.

Company Structure



List of Domestic and Overseas Affiliates

As of December 31, 2007, there were 485 branch outlets in total consisting of 28 tier-one branches, 17 tier-two branches, 439 sub-branches outlets and one finance company.

Serial number	Administrative region	Number of branches	Major branches/office	Address	Tel and Fax:
1	Beijing	1	Headquarters	Address: Tower C, Fuhua Mansion, No.8 Chaoyangmen Beidajie, Dongcheng District, Beijing Postal Code: 100027 SWIFT BIC: CIBKCNBJ	Tel: 86-10-65542388 Fax: 86-10-65541671 or 65541672 Hotline:95558
		33	Beijing Branch	Address: Tower A, Investment Plaza, No. 27, Financial Street, Xicheng District, Beijing Postal Code: 100032	Tel: 86-10-66219988 Fax: 86-10-66211770
2	Tianjin	17	Tianjin Branch	Address: No.14, Nanjing Road, Hexi District, Tianjin Postal Code: 300042	Tel: 86-22-23028880 Fax: 86-22-23028800
3	Hebei Province	10			
	Shijiazhuang	9	Shijiazhuang branch	Address: N.209, Xinhua East Road, Shijiazhuang, Hebei Province Postal Code: 050000	Tel: 86-311-87884438 Fax: 86-311-87884436
	Tangshan	1	Tangshan Branch	Address: No.46, West Xinhua, Tangshan, Hebei Province Postal Code: 063000	Tel: 86-315-3738508 Fax: 86-315-3738600
4	Liaoning Province	48			
	Shenyang	14	Shenyang Branch	Address: No.336, Daxi Road, Shenhe District, Shenyang, Liaoning Province Postal Code: 110014	Tel: 86-24-31510456 Fax: 86-24-31510234
	Dalian	18	Dalian Branch	Address: No. 29, Renmin Road, Zhongshan District, Dalian, Liaoning Province Postal Code: 116001	Tel: 86-411-82821868 Fax: 86-411-82804126
	Anshan	5	Anshan Branch	Address: No.35, Wuyi Road, Tiedong District, Anshan, Liaoning Province Postal Code: 114001	Tel: 86-412-2211988 Fax: 86-412-2230815
	Fushun	5	Fushun Branch	Address: No. 11, Xinhua Avenue, Shuncheng District, Fushun, Liaoning Province Postal Code: 113006	Tel: 86-413-7589324 Fax: 86-413-7587608
	Huludao	6	Huludao Branch	Address: No. 55, Xinhua Avenue, Lianshan District, Huludao, Liaoning Province Postal Code: 125001	Tel: 86-429-2802681 Fax: 86-429-2800885

Serial number	Administrative region	Number of branches	Major branches/office	Address	Tel and Fax:
5	Shanghai	24	Shanghai Branch	Address: No.61, East Nanjing Road, Shanghai Postal Code: 200002	Tel: 86-21-23029000 Fax: 86-21-23029001
6	Jiangsu Province	69			
	Nanjing	19	Nanjing Branch	Address: No.348, Zhongshan Road, Nanjing, Jiangsu Province Postal Code: 210008	Tel: 86-25-83799181 Fax: 86-25-83799000
	Wuxi	13	Wuxi Branch	Address: No.112, Renmin Road, Wuxi, Jiangsu Province Postal Code: 214031	Tel: 86-510-82707177 Fax: 86-510-82709166
	Changzhou	7	Changzhou Branch	Address: No.72, Boai Plaza, Boai Road, Changzhou, Jiangsu Province Postal Code: 213003	Tel: 86-519-8108833 Fax: 86-519-8107020
	Yangzhou	10	Yangzhou Branch	Address: No.171, Weiyang Road, Yangzhou, Jiangsu Province Postal Code: 225009	Tel: 86-514-7890717 Fax: 86-514-7890526
	Taizhou	3	Taizhou Branch	Address: No.39, North Qingnian Road, Taizhou, Jiangsu Province Postal Code: 225300	Tel: 86-523-6215818 Fax: 86-523-6243344
	Suzhou	17	Suzhou Branch	Address: No.258, Zhuhui Road, Suzhou, Jiangsu Province Postal Code: 215006	Tel: 86-512-65190307 Fax: 86-512-65198570
7	Zhejiang Province	53			
	Hangzhou	19	Hangzhou Branch	Address: No. 88, Yanan Road, Hangzhou, Zhejiang Province Postal Code: 310002	Tel: 86-571-87032888 Fax: 86-571-87089180
	Wenzhou	8	Wenzhou Branch	Address: No.12, East Renmin Road, Wenzhou, Zhejiang Province Postal Code: 325000	Tel: 86-577-88858616 Fax: 86-577-88817687
	Jiaxing	7	Jiaxing Branch	Address: No.111, Zhongshan Road, Jiaxing, Zhejiang Province Postal Code: 314000	Tel: 86-573-2097693 Fax: 86-573-2093454
	Shaoxing	7	Shaoxing Branch	Address: No.289, West Renmin Road, Shaoxing, Zhejiang Province Postal Code: 312000	Tel: 86-575-5227222 Fax: 86-575-5137782
	Ningbo	12	Ningbo Branch	Address: No.36, Zhenming Road, Haishu District, Ningbo Postal Code: 315010	Tel: 86-574-87733226 Fax: 86-574-87733060
8	Anhui Province Hefei	9	Hefei Branch	Address: No. 560, Meiling Avenue, Hefei, Anhui Province Postal Code: 230001	Tel: 86-551-2622426 Fax: 86-551-2625750

List of Domestic and Overseas Affiliates

Serial number	Administrative region	Number of branches	Major branches/office	Address	Tel and Fax:
9	Fujian Province	24			
	Fuzhou	12	Fuzhou Branch	Address: No.99, Hudong Road, Fuzhou Postal Code: 350001	Tel: 86-591-87538066 Fax: 86-591-87537066
	Xiamen	8	Xiamen Branch	Address: CITIC Bank Building (Huijing City), No..81, West Hubing Road, Xiamen, Fujian Province Postal Code: 361004	Tel: 86-592-2389008 Fax: 86-592-2396363
	Quanzhou	4	Quanzhou Branch	Address: Building of The People's Bank of China, Fengze Street, Quanzhou, Fujian Province Postal Code: 362000	Tel: 86-595-22148612 Fax: 86-595-22148222
10	Shandong Province	51			
	Jinan	10	Jinan Branch	Address: CITIC Plaza, N0.150, Leyuan Street, Jinan, Shandong Province Postal Code: 250011	Tel: 86-531-86911315 Fax: 86-531-86929194
	Qingdao	15	Qingdao Branch	Address: No.22, Mid Hong Kong Road, Qingdao, Shandong Province Postal Code: 266071	Tel: 86-532-85022889 Fax: 86-532-85022888
	Zibo	7	Zibo Branch	Address: No.109, Xincun Xilu Road, Zhangdian District, Zibo, Shandong Province Postal Code: 255032	Tel: 86-533-2212123 Fax: 86-533-2212123
	Yantai	6	Yantai Branch	Address: No. 207, Shengli Road, Zhifu District, Yantai, Shandong Province Postal Code: 264001	Tel: 86-535-6612888 Fax: 86-535-6611032
	Weihai	10	Weihai Branch	Address: No.2, North Qingdao Road, Weihai, Shandong Province Postal Code: 264200	Tel: 86-631-5313999 Fax: 86-631-5314076
	Jining	3	Jining Branch	Address: No.10, Jianshe Road, Jining, Shandong Province Postal Code: 272000	Tel: 86-537-2338888 Fax: 86-573-2338888
11	Henan Province Zhengzhou	13	Zhengzhou Branch	Address: No.26, North Jingsan Road, Zhengzhou, Henan Province Postal Code: 450008	Tel: 86-371-65792500 Fax: 86-371-65792900
12	Hubei Province Wuhan	16	Wuhan Branch	Address: No.747, Construction Avenue, Wuhan, Hubei Province Postal Code: 430015	Tel: 86-27-85355111 Fax: 86-27-85355222
13	Hunan Province Changsha	11	Changsha Branch	Address: No.456 Wuyi Street, Changsha, Hunan Province Postal Code: 410011	Tel: 86-731-4582177 Fax: 86-731-4582199

Serial number	Administrative region	Number of branches	Major branches/office	Address	Tel and Fax:
14	Guangdong Province	55			
	Guangzhou	19	Guangzhou Branch	Address: No.233, North Tianhe Road, Guangzhou, Guangdong Province Postal Code: 510613	Tel: 86-20-87521188 Fax: 86-20-87520668
	Foshan	3	Foshan Branch	Address: No.91, Fenjiang Nanlu Road, Foshan, Guangdong Province Postal Code: 528000	Tel: 86-757-83989999 Fax: 86-757-83981101
	Shenzhen	23	Shenzhen Branch	Address: No.5-7 CITIC Tower, CITIC Plaza, No. 1093 Mid Shennan Road, Shenzhen, Guangdong Province Postal Code: 518031	Tel: 86-755-25942568 Fax: 86-755-25942028
	Dongguan	10	Dongguan Branch	Address: IEO 1, Legend of Star River, East Road, Dongcheng District, Dongguan, Guangdong Province Postal Code: 523072	Tel: 86-769-22667888 Fax: 86-769-22667999
15	Chongqing	12	Chongqing Branch	Address: Building B, Chongqing International Trade Center, No.56, Qingnian Road, Yuzhong District, Chongqing Postal Code: 400010	Tel: 86-23-89037373 Fax: 86-23-89037227
16	Sichun Province Chengdu	16	Chengdu Branch	Address: Attached Buiding of Huaneng building, No.47, 4th Session, South Renmin Road, Chengdu, Sichun Province Postal Code: 610041	Tel: 86-28-85258888 Fax: 86-28-85258898
17	Yunnan Province Kunming	8	Kunming Branch	Address: Fulin Square, Baoshan Street, Kunming, Yunnan Province Postal Code: 650021	Tel: 86-871-3648555 Fax: 86-871-3648667
18	Shanxi Province Xi'an	13	Xi'an Branch	Address: No.89, North Changan Road, Xian, Shanxi Province Postal Code: 710061	Tel: 86-29-87820122 Fax: 86-29-87817025
19	Shan Xi Province Taiyuan	1	Taiyuan Branch	Address: Building A, King Office Building, No.9, Fuxi Street, Taiyuan, Shan Xi Province Postal Code: 030002	Tel: 86-351-3377040 Fax: 86-351-3377000
20	Jiangxi Province Nanchang	1	Nanchang Branch	Address: Tower A, No.16, Hengmao Guoji Huachen, No.333, South Dasha Road, Nanchang Postal Code: 330003	Tel: 86-791-6660109 Fax: 86-791-6660107

List of Domestic and Overseas Affiliates

Serial number	Administrative region	Number of branches	Major branches/office	Address	Tel and Fax:
21	Inner Mongolia Autonomous Region Huhehaote	1	Huhehaote Branch	Address: No.68, Xinhua Street, Huhehaote, Inner Mongolia Autonomous Region Postal Code: 010020	Tel: 86-471-6664933 Fax: 86-471-6664933
22	Hong Kong Special Administrative Region	1	China Investment and Finance Limited	Address: Room 2106, 21st Floor, Tower 2, Lippo Centre, No.89, Queensway, Hong Kong	Tel: 852-25212353 Fax: 852-28017399

中信银行
CHINA CITIC BANK

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Block C, Fuhua Mansion, No. 8 Chaoyangmen Beidajie,
Dongcheng District, Beijing, China
Postal Code: 100027

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