

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the Company's reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong. As described in "Appendix X—Documents Delivered to the Registrar of Companies and Available for Inspection", a copy of the Accountants' Report is available for inspection.



18th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

October 16, 2006

The Directors
Industrial and Commercial Bank of China Limited
China International Capital Corporation (Hong Kong) Limited
ICEA Capital Limited
Merrill Lynch Far East Limited

Dear Sirs

We set out below our report on the financial information of Industrial and Commercial Bank of China Limited (the "Bank") and its subsidiaries (hereinafter collectively referred to as the "Group") in Sections (I) to (III) below (the "Financial Information"), for inclusion in the prospectus of the Bank dated October 16, 2006 (the "Prospectus") in connection with the listing of the shares of the Bank on The Stock Exchange of Hong Kong Limited (the "SEHK").

Industrial and Commercial Bank of China ("ICBC") was a wholly-state-owned commercial bank founded on January 1, 1984. Its establishment was authorised by the State Council and the People's Bank of China (the "PBOC") of the People's Republic of China (the "PRC"). On October 28, 2005, with the approval of the State Council, ICBC was restructured and incorporated as a joint-stock limited company with a registered capital of RMB248,000 million divided into 248,000 million shares with a par value of RMB1 each, and accordingly issued 124,000 million shares each to the Ministry of Finance (the "MOF") and Central SAFE Investments Limited, a state-owned investment company previously known as China SAFE Investments Limited ("Huijin"). ICBC then changed its name to Industrial and Commercial Bank of China Limited.

All companies now comprising the Group have adopted December 31 as their financial year end date for statutory reporting purposes.

The statutory consolidated financial statements of the Group for the years ended December 31, 2003 and 2004 were prepared in accordance with the Accounting Standards for Business Enterprises, the Accounting System for Financial Institutions (1993 version) and other relevant regulations issued by the MOF, the PBOC and the China Banking Regulatory Commission (the "CBRC"), and were audited by Zhong Tian Hua Zheng CPA Co., Ltd. ("中天華正會計師事務所"). The statutory consolidated

financial statements of the Group for the year ended December 31, 2005 were prepared in accordance with the Accounting Standards for Business Enterprises, the Accounting System for Financial Institutions (2001 version) and other relevant regulations issued by the MOF, the PBOC and the CBRC and were audited by Ernst & Young Hua Ming (“安永華明會計師事務所”).

The Group also prepared consolidated financial statements for each of the years ended December 31, 2003, 2004 and 2005 and for the six months ended June 30, 2006 (the “Relevant Periods”) based on the International Financial Reporting Standards (“IFRSs”) promulgated by the International Accounting Standards Board (the “IFRS Financial Statements”) which were audited by us in accordance with International Standards on Auditing. The Financial Information has been prepared from the IFRS Financial Statements and, where appropriate, management accounts of the Bank and of the Group after making such adjustments considered appropriate.

The directors of the Bank are responsible for the Financial Information. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion.

Procedures Performed in Respect of the Relevant Periods

For the purpose of this report, we have examined the Financial Information for each of the years ended December 31, 2003, 2004 and 2005 and for the six months ended June 30, 2006, and have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline “Prospectuses and the Reporting Accountant” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

Procedures Performed in Respect of the Six Months Ended June 30, 2005

For the purpose of this report, we have also performed a review of the Financial Information for the six months ended June 30, 2005, for which the directors are responsible, in accordance with the Statement of Auditing Standard 700 “Engagements to review interim financial reports” issued by the HKICPA. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets and liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an opinion on the Financial Information in respect of the six months ended June 30, 2005.

Opinion in respect of the Relevant Periods

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the results and cash flows of the Group for each of the years ended December 31, 2003, 2004 and 2005 and for the six months ended June 30, 2006 and of the state of affairs of the Bank and of the Group as at December 31, 2003, 2004 and 2005 and June 30, 2006.

Review conclusion in respect of the six months ended June 30, 2005

On the basis of our review which does not constitute an audit, for the purpose of this report, we are not aware of any material modifications that should be made to the results and cash flows of the Group for the six months ended June 30, 2005.

(I) FINANCIAL INFORMATION

Consolidated Income Statements

(Expressed in millions of Renminbi, unless otherwise stated)

Group

	Notes	Year ended December 31,			Six months ended June 30,	
		2003	2004	2005	2005 (Unaudited)	2006
Interest income	3	189,069	204,889	240,202	112,283	129,038
Interest expense	3	(66,361)	(70,161)	(86,599)	(40,558)	(52,530)
Net interest income	3	122,708	134,728	153,603	71,725	76,508
Fee and commission income	4	7,059	9,780	12,376	5,502	8,761
Fee and commission expense		(1,435)	(1,572)	(1,830)	(635)	(895)
Net fee and commission income		5,624	8,208	10,546	4,867	7,866
Other operating income	5	4,452	5,023	7,471	4,500	1,376
Operating income		132,784	147,959	171,620	81,092	85,750
Operating expenses	6	(62,575)	(62,639)	(81,585)	(33,964)	(34,696)
Provisions for impairment losses on						
—Loans and advances to customers	16	(34,914)	(30,511)	(26,589)	(11,558)	(11,645)
—Others	9	(1,379)	(348)	(425)	(165)	(573)
Operating profit		33,916	54,461	63,021	35,405	38,836
Share of profits and losses of associates		(32)	(50)	5	—	5
Profit before tax		33,884	54,411	63,026	35,405	38,841
Income tax expense	10	(11,292)	(23,193)	(25,007)	(9,957)	(13,199)
Profit for the year/period		22,592	31,218	38,019	25,448	25,642
Attributable to:						
Equity holders of the Bank		22,472	30,863	37,555	25,161	25,399
Minority interests		120	355	464	287	243
		22,592	31,218	38,019	25,448	25,642
Earnings per share attributable to equity holders of the Bank						
—Basic and diluted (Renminbi)	12	0.09	0.12	0.15	0.10	0.10

(I) FINANCIAL INFORMATION (continued)**Consolidated Balance Sheets****(Expressed in millions of Renminbi, unless otherwise stated)**

Group

	Notes	December 31,			June 30,
		2003	2004	2005	2006
ASSETS					
Cash and balances with central banks	13	457,816	508,616	553,873	598,269
Due from banks and other financial institutions	14	66,009	69,430	132,162	131,133
Reverse repurchase agreements	15	71,239	21,764	89,235	105,542
Loans and advances to customers	16	2,766,055	3,109,191	3,205,861	3,375,342
Investment securities	17	1,044,730	1,230,416	2,305,689	2,657,819
Income tax recoverable		427	—	—	—
Investments in associates	19	274	117	120	125
Property and equipment	20	77,767	75,579	92,984	88,709
Deferred income tax assets	21	27,381	8,805	—	—
Other assets	22	45,253	45,406	76,207	97,686
TOTAL ASSETS		<u>4,556,951</u>	<u>5,069,324</u>	<u>6,456,131</u>	<u>7,054,625</u>
LIABILITIES					
Due to a central bank		32,383	28,402	—	—
Due to banks and other financial institutions	23	219,009	205,695	232,910	367,218
Repurchase agreements	24	16,253	26,339	32,301	11,622
Certificates of deposits		3,376	3,680	5,704	6,991
Due to customers	25	4,706,861	5,176,282	5,736,866	6,119,038
Income tax payable		84	2,792	14,641	12,812
Deferred income tax liabilities	21	—	—	1,418	270
Debt issued	26	—	3,294	38,076	37,987
Other liabilities	27	118,119	130,885	134,339	169,222
TOTAL LIABILITIES		<u>5,096,085</u>	<u>5,577,369</u>	<u>6,196,255</u>	<u>6,725,160</u>
EQUITY					
Issued share capital/paid-up capital	28	160,671	160,669	248,000	286,509
Reserves	28	17,151	15,334	2,559	19,681
Retained profits/(accumulated losses)		(718,571)	(687,716)	5,280	19,183
Equity attributable to equity holders of the Bank		(540,749)	(511,713)	255,839	325,373
Minority interests		1,615	3,668	4,037	4,092
TOTAL EQUITY		<u>(539,134)</u>	<u>(508,045)</u>	<u>259,876</u>	<u>329,465</u>
TOTAL EQUITY AND LIABILITIES		<u>4,556,951</u>	<u>5,069,324</u>	<u>6,456,131</u>	<u>7,054,625</u>

(I) FINANCIAL INFORMATION (continued)**Balance Sheets****(Expressed in millions of Renminbi, unless otherwise stated)**

Bank

	Notes	December 31,			June 30,
		2003	2004	2005	2006
ASSETS					
Cash and balances with central banks	13	457,759	508,445	553,572	597,844
Due from banks and other financial institutions	14	76,014	74,834	129,926	112,180
Reverse repurchase agreements	15	71,239	21,764	89,235	105,542
Loans and advances to customers	16	2,720,990	3,040,627	3,131,096	3,301,452
Investment securities	17	1,037,645	1,220,987	2,297,831	2,652,785
Income tax recoverable		427	—	—	—
Investments in subsidiaries	18	7,098	7,087	7,112	7,063
Investments in associates	19	83	74	74	74
Property and equipment	20	77,184	75,124	92,615	88,343
Deferred income tax assets	21	27,320	8,727	—	—
Other assets	22	42,476	42,096	73,364	94,372
TOTAL ASSETS		<u>4,518,235</u>	<u>4,999,765</u>	<u>6,374,825</u>	<u>6,959,655</u>
LIABILITIES					
Due to a central bank		32,383	28,402	—	—
Due to banks and other financial institutions	23	225,628	209,835	231,434	372,204
Repurchase agreements	24	16,253	27,167	33,109	12,232
Due to customers	25	4,668,017	5,115,197	5,671,854	6,036,319
Income tax payable		66	2,774	14,627	12,646
Deferred income tax liabilities	21	—	—	1,418	286
Debt issued	26	—	—	35,000	35,000
Other liabilities	27	116,406	128,675	132,533	166,751
TOTAL LIABILITIES		<u>5,058,753</u>	<u>5,512,050</u>	<u>6,119,975</u>	<u>6,635,438</u>
EQUITY					
Issued share capital/paid-up capital	28	160,671	160,669	248,000	286,509
Reserves	28	16,934	14,596	1,955	19,115
Retained profits/(accumulated losses)	28	(718,123)	(687,550)	4,895	18,593
TOTAL EQUITY		<u>(540,518)</u>	<u>(512,285)</u>	<u>254,850</u>	<u>324,217</u>
TOTAL EQUITY AND LIABILITIES		<u>4,518,235</u>	<u>4,999,765</u>	<u>6,374,825</u>	<u>6,959,655</u>

(I) FINANCIAL INFORMATION (continued)

Consolidated Statements of Changes in Equity

(Expressed in millions of Renminbi, unless otherwise stated)

Group

	Attributable to equity holder of the Bank									
	Reserves									
	Paid-up capital	Capital reserve	Surplus reserves	Investment revaluation reserve	Foreign currency translation reserve	Subtotal	Accumulated losses	Total	Minority interests	Total equity
Balance as at January 1, 2003	160,735	(2,301)	14,805	6,257	132	18,893	(741,038)	(561,410)	1,586	(559,824)
Net change in the fair value of available-for-sale investments	—	—	—	(1,557)	—	(1,557)	—	(1,557)	—	(1,557)
Reserve realised on disposal of available-for-sale investments	—	—	—	(313)	—	(313)	—	(313)	—	(313)
Foreign currency translation	—	—	—	—	123	123	—	123	—	123
Total income and expense for the year recognised directly in equity	—	—	—	(1,870)	123	(1,747)	—	(1,747)	—	(1,747)
Profit for the year	—	—	—	—	—	—	22,472	22,472	120	22,592
Total income and expense for the year	—	—	—	(1,870)	123	(1,747)	22,472	20,725	120	20,845
Appropriation to surplus reserves	—	—	5	—	—	5	(5)	—	—	—
Transfer of capital (Note)	(64)	—	—	—	—	—	—	(64)	—	(64)
Profit distribution by a subsidiary	—	—	—	—	—	—	—	—	(91)	(91)
Balance as at December 31, 2003	160,671	(2,301)	14,810	4,387	255	17,151	(718,571)	(540,749)	1,615	(539,134)

Note: In accordance with the supplementary notice issued by the MOF on the transfer of capital to asset management companies, ICBC transferred certain of its capital to China Huarong Asset Management Corporation (“Huarong”).

(I) FINANCIAL INFORMATION (continued)

Consolidated Statements of Changes in Equity (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

Group (continued)

	Attributable to equity holder of the Bank							Total	Minority interests	Total equity
	Reserves									
	Paid-up capital	Capital reserve	Surplus reserves	Investment revaluation reserve	Foreign currency translation reserve	Subtotal	Accumulated losses			
Balance as at January 1, 2004	160,671	(2,301)	14,810	4,387	255	17,151	(718,571)	(540,749)	1,615	(539,134)
Net change in the fair value of available-for-sale investments	—	—	—	(2,365)	—	(2,365)	—	(2,365)	—	(2,365)
Reserve realised on disposal of available-for-sale investments	—	—	—	(95)	—	(95)	—	(95)	—	(95)
Foreign currency translation	—	—	—	—	114	114	—	114	—	114
Total income and expense for the year recognised directly in equity	—	—	—	(2,460)	114	(2,346)	—	(2,346)	—	(2,346)
Profit for the year	—	—	—	—	—	—	30,863	30,863	355	31,218
Total income and expense for the year	—	—	—	(2,460)	114	(2,346)	30,863	28,517	355	28,872
Appropriation to surplus reserves	—	—	8	—	—	8	(8)	—	—	—
Transfer of capital (Note)	(2)	—	—	—	—	—	—	(2)	—	(2)
Subsidiary's shares issued to a minority shareholder	—	521	—	—	—	521	—	521	1,884	2,405
Profit distribution by a subsidiary	—	—	—	—	—	—	—	—	(186)	(186)
Balance as at December 31, 2004	160,669	(1,780)	14,818	1,927	369	15,334	(687,716)	(511,713)	3,668	(508,045)

Note: In accordance with the supplementary notice issued by the MOF on the transfer of capital to asset management companies, ICBC transferred certain of its capital to Huarong.

(I) FINANCIAL INFORMATION (continued)

Consolidated Statements of Changes in Equity (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

Group (continued)

	Attributable to equity holders of the Bank												
	Reserves												
	Issued share capital	Paid-up capital	Capital reserve	Surplus reserves	General reserve	Asset revaluation reserve	Investment revaluation reserve	Foreign currency translation reserve	Subtotal	Retained profits / (accumulated losses)	Total	Minority interests	Total equity
Balance as at January 1, 2005	—	160,669	(1,780)	14,818	—	—	1,927	369	15,334	(687,716)	(511,713)	3,668	(508,045)
Net change in the fair value of available-for-sale investments	—	—	—	—	—	—	3,453	—	3,453	—	3,453	—	3,453
Reserve realised on disposal of available-for-sale investments	—	—	—	—	—	—	480	—	480	—	480	—	480
Foreign currency translation	—	—	—	—	—	—	—	(217)	(217)	—	(217)	(61)	(278)
Assets revaluation surplus arising from the Restructuring (note 20)	—	—	—	—	—	22,697	—	—	22,697	—	22,697	—	22,697
Total income and expense for the year recognised directly in equity	—	—	—	—	—	22,697	3,933	(217)	26,413	—	26,413	(61)	26,352
Profit for the year	—	—	—	—	—	—	—	—	—	37,555	37,555	464	38,019
Total income and expense for the year	—	—	—	—	—	22,697	3,933	(217)	26,413	37,555	63,968	403	64,371
Restructuring:													
Capital injection (note 1(b)(i) and (iv))	—	124,148	19,906	—	—	—	—	—	19,906	—	144,054	—	144,054
Equity contribution arising from the disposal of impaired assets (note 1(b)(ii) and (iii))	—	—	567,558	—	—	—	—	—	567,558	—	567,558	—	567,558
Elimination of capital and reserves with accumulated losses and transfer of paid-up capital, reserves and accumulated losses to share capital (note 1(b)(vii) and (viii))	248,000	(284,817)	(587,063)	(14,818)	—	(22,697)	(3,828)	(321)	(628,727)	657,516	(8,028)	—	(8,028)
Appropriation to surplus reserves	—	—	—	375	—	—	—	—	375	(375)	—	—	—
Appropriation to general reserve	—	—	—	—	1,700	—	—	—	1,700	(1,700)	—	—	—
Subsidiary's shares issued to a minority shareholder	—	—	—	—	—	—	—	—	—	—	—	204	204
Profit distribution by a subsidiary	—	—	—	—	—	—	—	—	—	—	—	(238)	(238)
Balance as at December 31, 2005	248,000	—	(1,379)	375	1,700	—	2,032	(169)	2,559	5,280	255,839	4,037	259,876

(I) FINANCIAL INFORMATION (continued)

Consolidated Statements of Changes in Equity (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

Group (continued)

	Attributable to equity holder of the Bank										
	Reserves										
	Paid-up capital (Unaudited)	Capital reserve (Unaudited)	Surplus reserves (Unaudited)	Asset revaluation reserve (Unaudited)	Investment revaluation reserve (Unaudited)	Foreign currency translation reserve (Unaudited)	Subtotal (Unaudited)	Accumulated losses (Unaudited)	Total (Unaudited)	Minority interests (Unaudited)	Total equity (Unaudited)
Balance as at January 1, 2005	160,669	(1,780)	14,818	—	1,927	369	15,334	(687,716)	(511,713)	3,668	(508,045)
Net change in the fair value of available-for-sale investments	—	—	—	—	1,904	—	1,904	—	1,904	(34)	1,870
Reserve realised on disposal of available-for-sale investments	—	—	—	—	528	(49)	528	(49)	528	—	528
Foreign currency translation	—	—	—	—	—	—	(49)	—	(49)	—	(49)
Assets revaluation surplus arising from the Restructuring (note 20)	—	—	—	22,697	—	—	22,697	—	22,697	—	22,697
Total income and expense for the period recognised directly in equity	—	—	—	22,697	2,432	(49)	25,080	—	25,080	(34)	25,046
Profit for the period	—	—	—	—	—	—	—	25,161	25,161	287	25,448
Total income and expense for the period	—	—	—	22,697	2,432	(49)	25,080	25,161	50,241	253	50,494
Restructuring:											
Capital injection (note 1(b)(i))	124,148	—	—	—	—	—	—	—	124,148	—	124,148
Equity contribution arising from the disposal of impaired assets (note 1(b)(ii) and (iii))	—	567,558	—	—	—	—	567,558	—	567,558	—	567,558
Elimination of capital and reserves with accumulated losses (note 1(b)(vii))	(36,669)	(1,258)	(14,731)	—	—	—	(15,989)	52,658	—	—	—
Subsidiary's shares issued to a minority shareholder	—	—	—	—	—	—	—	—	—	90	90
Profit distribution by a subsidiary	—	—	—	—	—	—	—	—	—	(146)	(146)
Balance as at June 30, 2005	248,148	564,520	87	22,697	4,359	320	591,983	(609,897)	230,234	3,865	234,099

(I) FINANCIAL INFORMATION (continued)

Consolidated Statements of Changes in Equity (continued)
(Expressed in millions of Renminbi, unless otherwise stated)
 Group (continued)

	Attributable to equity holders of the Bank							Total	Minority interests	Total equity
	Reserves									
	Issued share capital	Capital reserve	Surplus reserves	General reserve	Investment revaluation reserve	Foreign currency translation reserve	Subtotal			
Balance as at January 1, 2006	248,000	(1,379)	375	1,700	2,032	(169)	2,559	5,280	4,037	259,876
Net change in the fair value of available-for-sale investments	—	—	—	—	(884)	—	(884)	—	—	(884)
Reserve realised on disposal of available-for-sale investments	—	—	—	—	59	—	59	—	—	59
Foreign currency translation	—	—	—	—	—	31	31	—	(25)	6
Total income and expense for the period recognised directly in equity	—	—	—	—	(825)	31	(794)	—	(25)	(819)
Profit for the period	—	—	—	—	—	—	—	25,399	243	25,642
Total income and expense for the period	—	—	—	—	(825)	31	(794)	25,399	218	24,823
Issuance of share capital (note 28(a))	38,509	9,957	—	—	—	—	9,957	—	—	48,466
Dividend—2005 final (note 11)	—	—	—	—	—	—	—	(3,537)	—	(3,537)
Appropriation to surplus reserves (note)	—	—	2,657	—	—	—	2,657	(2,657)	—	—
Appropriation to general reserve	—	—	—	5,302	—	—	5,302	(5,302)	—	—
Profit distribution by a subsidiary	—	—	—	—	—	—	—	—	(163)	(163)
Balance as at June 30, 2006	286,509	8,578	3,032	7,002	1,207	(138)	19,681	19,183	4,092	329,465

Note: Includes the appropriation made by an overseas branch in amount of RMB6 million.

As at December 31, 2005 and June 30, 2006, a subsidiary has set aside a regulatory reserve of HK\$352 million and HK\$342 million, respectively, from its retained profits, in addition to the impairment allowance for loans and advances. The regulatory reserve is maintained in accordance with the requirements of the Hong Kong Monetary Authority.

(I) FINANCIAL INFORMATION (continued)**Consolidated Cash Flow Statements****(Expressed in millions of Renminbi, unless otherwise stated)**

Group

	Notes	Year ended December 31,			Six months ended June 30,	
		2003	2004	2005	2005 (Unaudited)	2006
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit before tax		33,884	54,411	63,026	35,405	38,841
Adjustments for:						
Share of profits and losses of associates		32	50	(5)	—	(5)
Depreciation	6	8,654	8,977	9,852	4,571	5,053
Amortisation	6	752	710	712	288	513
Provisions for impairment losses on loans and advances	16	34,914	30,511	26,589	11,558	11,645
Provisions for impairment losses on assets other than loans and advances	9	1,379	348	425	165	573
Interest expense on debt issued	3	—	40	490	68	616
Accretion of impairment provision discount	16	(9,844)	(9,876)	(8,349)	(5,657)	(896)
Gain from foreign exchange and foreign exchange products, net	5	(1,190)	(894)	(2,255)	(1,681)	(218)
Loss/(gain) on investments in securities, net	5	(553)	(358)	(107)	(405)	341
Loss/(gain) from other dealing activities, net	5	326	(660)	(1,207)	(662)	(410)
Gain on disposal of property and equipment and other assets, net	5	(482)	(814)	(626)	(707)	(166)
Dividend income	5	(3)	(17)	(2)	—	(3)
		<u>67,869</u>	<u>82,428</u>	<u>88,543</u>	<u>42,943</u>	<u>55,884</u>
Net decrease/(increase) in operating assets:						
Due from central banks		(63,212)	(71,910)	(54,454)	(27,898)	(27,125)
Due from banks and other financial institutions		47,917	(1,172)	4,510	(33,060)	(13,154)
Reverse repurchase agreements		47,980	8,469	(902)	(11,803)	(5,055)
Loans and advances to customers		(431,670)	(354,970)	(244,536)	(166,626)	(184,174)
Other assets		(27,505)	5,713	(8,268)	(16,240)	(17,597)
		<u>(426,490)</u>	<u>(413,870)</u>	<u>(303,650)</u>	<u>(255,627)</u>	<u>(247,105)</u>
Net increase/(decrease) in operating liabilities:						
Due to a central bank		19,281	(3,981)	(4,865)	(4,865)	—
Due to banks and other financial institutions		(46,179)	(14,458)	27,215	53,046	134,308
Repurchase agreements		(31,474)	10,086	5,962	(23,359)	(20,679)
Due to customers		536,546	447,951	560,584	327,012	382,172
Certificates of deposits		—	304	2,024	(1,057)	1,287
Other liabilities		41,549	12,574	(5,332)	12,894	39,258
		<u>519,723</u>	<u>452,476</u>	<u>585,588</u>	<u>363,671</u>	<u>536,346</u>
Net cash flows from operating activities before tax		161,102	121,034	370,481	150,987	345,125
Income tax paid		(218)	(270)	(2,987)	(1,065)	(15,770)
Net cash flows generated from operating activities		<u>160,884</u>	<u>120,764</u>	<u>367,494</u>	<u>149,922</u>	<u>329,355</u>

(I) FINANCIAL INFORMATION (continued)**Consolidated Cash Flow Statements (continued)****(Expressed in millions of Renminbi, unless otherwise stated)**

Group (continued)

	Note	Year ended December 31,			Six months ended June 30,	
		2003	2004	2005	2005 (Unaudited)	2006
CASH FLOWS FROM INVESTING ACTIVITIES						
Acquisition of a subsidiary, net of cash acquired	37(a)	—	4,450	—	—	—
Purchases of property and equipment and other assets		(9,236)	(8,580)	(9,684)	(2,851)	(1,792)
Proceeds from disposal of property and equipment		1,354	1,730	5,177	2,447	564
Purchases of investments		(346,227)	(467,936)	(719,996)	(320,537)	(858,067)
Proceeds from sale and redemption of investments		221,982	270,252	327,090	176,174	663,084
Dividend received		3	17	2	—	3
Net cash flows used in investing activities		<u>(132,124)</u>	<u>(200,067)</u>	<u>(397,411)</u>	<u>(144,767)</u>	<u>(196,208)</u>
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from capital injection		—	—	124,148	124,148	40,438
Capital contribution by minority shareholders		—	1,467	166	90	—
Repayment of debt issued		—	—	(138)	—	—
Proceeds from debt issued		—	3,294	35,000	—	—
Transfer of capital to Huarong		—	(2)	—	—	—
Interest paid on debt issued		—	(40)	(490)	(68)	(616)
Dividend paid to minority shareholders		(91)	(186)	(238)	(146)	(163)
Net cash flows generated from/(used in) financing activities		<u>(91)</u>	<u>4,533</u>	<u>158,448</u>	<u>124,024</u>	<u>39,659</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		28,669	(74,770)	128,531	129,179	172,806
Cash and cash equivalents at beginning of the year/period		213,629	242,620	168,019	168,019	294,424
Effect of exchange rate changes on cash and cash equivalents		322	169	(2,126)	27	(510)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD	37(b)	<u>242,620</u>	<u>168,019</u>	<u>294,424</u>	<u>297,225</u>	<u>466,720</u>
NET CASH FLOWS GENERATED FROM OPERATING ACTIVITIES INCLUDE:						
Interest received		176,573	186,957	208,975	96,129	123,441
Interest paid		<u>(63,366)</u>	<u>(68,171)</u>	<u>(82,274)</u>	<u>(33,879)</u>	<u>(44,555)</u>

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****1. CORPORATE INFORMATION AND RESTRUCTURING****(a) Corporate information**

The registered office of the Bank is located at No. 55 Fuxingmennei Avenue, Xicheng District, Beijing, the PRC. The Bank has established branches in 35 provinces, autonomous regions and municipalities directly under the central government in the PRC, and has also established eight branches outside Mainland China.

Upon the incorporation of the Bank, the CBRC issued a financial services certificate to the Bank (No. B10111000H0001) and the State Administration for Industry and Commerce of the PRC issued a business licence to the Bank (No. 1000001000396).

(b) Restructuring

During the year 2005, pursuant to a restructuring plan (the “Restructuring”) approved by the State Council, ICBC completed a series of restructuring measures as set out below prior to its reformation into a joint-stock limited company.

(i) Capital injection of US\$15,000 million by the PRC government (the “Government”)

In April 2005, the Government injected US\$15,000 million of cash into ICBC as capital through Huijin, under the direction of the State Council. ICBC remained as a wholly-state-owned bank after such capital injection.

(ii) Disposal of impaired loans and advances classified under the loss category and other impaired assets of RMB246,000 million in aggregate

In May 2005, with the approval of the MOF, Huarong was designated as an agent of the MOF to purchase certain impaired loans and advances classified under the loss category and other impaired assets from ICBC at book values, before allowance for impairment losses, of RMB176,000 million and RMB70,000 million, respectively. The consideration of RMB246,000 million in aggregate (note 17(a)) was accounted for as an amount receivable from the MOF, which will be settled by the MOF in the following five years and bears interest at a fixed rate of 3% per annum.

(iii) Disposal of impaired loans and advances classified under the doubtful category of RMB459,002 million in aggregate

With the approval and under the arrangement of the PBOC, certain impaired loans and advances classified under the doubtful category with an aggregate amount, before allowance for impairment losses, of RMB459,002 million were purchased by Huarong, China Great Wall Asset Management Corporation, China Orient Asset Management Corporation, and China Cinda Asset Management Corporation (collectively the “AMCs”) from ICBC. In June 2005, ICBC entered into transfer agreements with the AMCs. Pursuant to the transfer agreements and instructions from the PBOC, the impaired loans were disposed of at book value before allowance at a consideration of RMB459,002 million from the AMCs. An amount of RMB430,465 million (note 17(a)) included therein was applied to exchange for a non-transferable bill issued by the PBOC. The bill will mature in

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****1. CORPORATE INFORMATION AND RESTRUCTURING (continued)****(b) Restructuring (continued)**

June 2010 (the "Maturity Date") and bears a fixed interest rate of 1.89% per annum. The PBOC has the right to redeem the bill prior to the Maturity Date. The remaining balance of the consideration was used to settle the amount due to the PBOC.

As a result of the disposals mentioned in (ii) and (iii) above, the related aggregate allowance for impairment losses of RMB567,558 million was reversed and credited to the capital reserve as a contribution of capital, including those attributable to loans and advances and other assets of RMB503,090 (note 16) million and RMB64,468 million, respectively.

(iv) Injection of land use rights of RMB19,906 million by the Government

During the year 2005, as part of the Restructuring, the Government injected certain land use rights into ICBC as capital contribution. The estimated fair value of such land use rights, which amounted to approximately RMB19,906 million, was credited to the capital reserve and subsequently capitalised as share capital of the Bank upon its incorporation.

(v) Repayment of principal and interest of Huarong bonds

Pursuant to a notice issued by the MOF in June 2005, the MOF will provide support for the repayment of principal of the Huarong bonds of RMB312,996 million (note 17(a)), if necessary. In addition, with effect from July 1, 2005, should Huarong be unable to make full payment of the bond interest, the MOF will provide funding in support of the payment.

(vi) Revision of the terms of a special government bond issued by the MOF

A non-negotiable bond with nominal value of RMB85,000 million (note 17(a)) was issued by the MOF to ICBC in 1998. The bond will mature in 2028 and bore interest at a fixed rate of 7.2% per annum originally. As part of the Restructuring, the interest rate of the bond was revised to a fixed rate of 2.25% per annum, with effect from December 1, 2005.

(vii) Elimination of capital and reserves with accumulated losses

As part of the Restructuring, and in accordance with the instructions of the MOF, ICBC eliminated part of its capital and reserves with the accumulated losses during 2005.

(viii) Reformation into a joint-stock limited company

In accordance with the statutory requirements on the restructuring of state-owned enterprises, ICBC engaged independent qualified asset appraisers to perform a valuation exercise on its assets and liabilities as at June 30, 2005. Based on the valuation report issued by China United Assets Appraisal Co., Ltd, an independent firm of qualified asset appraisers in the PRC, the net assets of ICBC as at June 30, 2005 were valued at RMB256,028 million. ICBC submitted the valuation report to the relevant regulatory bodies in support of its application for restructuring from a state-owned enterprise into a joint-stock limited company.

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****1. CORPORATE INFORMATION AND RESTRUCTURING (continued)****(b) Restructuring (continued)**

With the approval of the State Council, ICBC was restructured into a joint-stock limited company with a total registered capital of RMB248,000 million on October 28, 2005. The paid-up capital, reserves and accumulated losses of ICBC, after taking into account the surpluses arising from the aforementioned valuation, were converted into issued share capital of the joint-stock limited company upon its incorporation. An aggregate of 248,000 million promoters' shares at par value of RMB1 each were issued to the MOF and Huijin, with each holding 124,000 million shares. The excess of the paid-up capital, reserves and accumulated losses of ICBC so converted, as represented by the net asset value of RMB256,028 million over the issued share capital of RMB248,000 million, which amounted to RMB8,028 million, was accounted for as a payable to the MOF and was included under other liabilities (note 27) as of December 31, 2005.

(c) Principal activities

The principal activities of the Group comprise the provision of banking services, including Renminbi ("RMB") and foreign currency deposits, loans, payment and settlement services, and other services as approved by the CBRC of the PRC, and the provision of related services by its overseas establishments as approved by the respective local regulators.

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****1. CORPORATE INFORMATION AND RESTRUCTURING (continued)****(d) Details of principal subsidiaries consolidated**

During the Relevant Periods and up to the date of this report, the Bank had direct interests in the following principal subsidiaries. Except for Industrial and Commercial Bank of China (Asia) Limited (“ICBC (Asia)”) whose shares are listed on the SEHK, all of them are private companies (or, if incorporated/registered outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong). The particulars of the principal subsidiaries are set out below:

Company name	Place and date of incorporation/registration and place of operations	Nominal value of issued share/paid-up capital as at June 30, 2006	Percentage of equity interests attributable to the Bank as at				Date of this report	Principal Activities
			December 31,			June 30,		
			2003	2004	2005	2006		
ICBC (Asia) (i)	Hong Kong November 12, 1964	HK\$2,242.52 million ordinary shares	72.67	57.53	59.72	59.72	59.72	Commercial banking
Industrial and Commercial International Capital Limited (“ICIC”) (i)	Hong Kong March 30, 1973	HK\$280 million ordinary shares	100	100	100	100	100	Commercial banking
ICEA Finance Holdings Limited (“ICEA”) (i)	British Virgin Islands/Hong Kong January 22, 1998	US\$20 million ordinary shares	75	75	75	75	75	Investment banking
ICBC (London) Limited (“ICBC (London)”) (ii)	London, United Kingdom October 3, 2002	US\$100 million ordinary shares	100	100	100	100	100	Commercial banking
Industrial and Commercial Bank of China (Almaty) JSC (“ICBC (Almaty)”) (iii)	Almaty, Kazakhstan March 3, 1993	US\$10 million ordinary shares	100	100	100	100	100	Commercial banking
ICBC Credit Suisse Asset Management Co., Ltd. (“ICBC Credit Suisse Asset Management”) (iv)	Beijing, The PRC June 21, 2005	RMB200 million	N/A	N/A	55	55	55	Fund management

The above table lists the principal subsidiaries of the Bank in terms of results or net assets. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

(i) The respective audited financial statements for each of the years ended December 31, 2003, 2004 and 2005 were audited by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong.

(ii) The audited financial statements for each of the years ended December 31, 2003, 2004 and 2005 were audited by Ernst & Young LLP, Registered Auditor, London.

(iii) ICBC (Almaty), previously known as CJSC Industrial and Commercial Bank of China, was re-registered under its current name on May 5, 2005. The audited financial statements for each of the years ended December 31, 2003, 2004 and 2005 were audited by Deloitte & Touche, LLP, Almaty.

(iv) The audited financial statements for the period from June 21, 2005 (date of incorporation) to December 31, 2005 were audited by Ernst & Young Hua Ming, a firm of professional accountants registered in the PRC.

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES****2.1 BASIS OF PREPARATION**

The Financial Information has been prepared in accordance with IFRSs, which comprise standards and interpretations promulgated by the International Accounting Standards Board.

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in the Financial Information.

- IAS 1 Amendment Capital Disclosures
- IFRS 7 Financial Instruments: Disclosure

International Accounting Standard (“IAS”) 1 Amendment shall be applied for annual periods beginning on or after January 1, 2007. The revised standard will affect the disclosures regarding qualitative information about the Group’s objective, policies and processes for managing capital; quantitative data about what the Bank regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

IFRS 7 will be effective for annual periods beginning on or after January 1, 2007. IFRS 7 requires more detailed qualitative and quantitative disclosures primarily of fair value information and risk management and, accordingly, will affect the level of details in the disclosures of the Group’s financial statements.

In connection with the above, the directors do not expect them to have any significant financial impact on the Group’s financial statements.

Basis of measurement

The Financial Information has been prepared on a historical cost basis, except for certain property and equipment, derivative financial instruments, financial assets and liabilities at fair value through profit or loss and available-for-sale financial assets that have been measured at revalued amounts or fair values, as further detailed in the respective accounting policies below. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and are otherwise carried at cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged. The Financial Information is presented in RMB and all values are rounded to the nearest million except when otherwise indicated.

Basis of consolidation

A subsidiary is a company whose financial and operating policies the Bank controls, directly or indirectly, so as to obtain benefits from its activities. The Financial Information of the Group comprises the financial statements of the Bank and its subsidiaries. The financial statements of subsidiaries for the purpose of preparing the Financial Information are prepared for the same reporting year/period as the Bank, using consistent accounting policies.

The results of subsidiaries are included in the Bank’s income statement to the extent of dividends received and receivable. The Bank’s investments in subsidiaries are stated at cost less any impairment losses.

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)****2.1 BASIS OF PREPARATION (continued)**Basis of consolidation (continued)

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full.

A subsidiary is fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continues to be consolidated until the date that such control ceases. Where there is a loss of control in a subsidiary, the consolidated income statements include the result of that subsidiary for the part of the reporting period during which the Bank has control.

Minority interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group and are presented separately in the consolidated income statement, and within equity in the consolidated balance sheet separately from the equity attributable to equity holders of the Bank.

2.2 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying the Group's accounting policies, management has made assumptions of the effects of uncertain future events on the Financial Information. The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year/period are discussed below. Apart from those assumptions and estimations, judgements are also made and are set out below.

Designation of held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and a fixed maturity are classified as held-to-maturity investments when the Group has the positive intention and ability to hold the investments to maturity. Accordingly, in evaluating whether a financial asset shall be classified as held-to-maturity investment, significant management judgement is required. If the Group fails to correctly assess its intention and ability to hold the investments to maturity and the Group sells or reclassifies more than an insignificant amount of held-to-maturity investments before maturity, the Group shall classify the whole held-to-maturity investment portfolio as available-for-sale.

Impairment losses of loans and advances

The Group determines periodically whether there is any objective evidence that an impairment loss on loans and advances has incurred. If any such evidence exists, the Group assesses the amount of impairment losses. The amount of impairment losses is measured as the difference between the carrying amount and the present value of estimated future cash flows. Assessing the amount of impairment losses requires significant judgement on whether objective evidence for impairment exists and also significant estimates when determining the present value of the expected future cash flows. The carrying amount of loans and advances to customers as at the balance sheet dates are set out in note 16 to the Financial Information.

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)****2.2 SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (continued)***Income tax*

Determining income tax provisions requires the Group to estimate the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provisions accordingly. In addition, deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. This requires significant estimation on the tax treatments of certain transactions and also significant assessment on the probability that adequate future taxable profits will be available for the deferred income tax assets to be recovered.

Fair value of financial instruments

If the market for a financial instrument is not active, the Group establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. To the extent practicable, valuation technique makes maximum use of market inputs. However, where market inputs are not available, management needs to make estimates on areas such as credit risk (both own and counterparty's), volatility and correlation. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**(a) Investments in associates**

An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture. The Group's investments in associates are accounted for under the equity method of accounting.

Under the equity method, an investment in an associate is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the associate, less any impairment losses. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associate. The consolidated income statement reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity.

The reporting dates of the associates and the Group are identical and the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

The results of associates are included in the Bank's income statement to the extent of dividends received and receivable. The Bank's investments in associates are stated at cost less any impairment losses.

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)****2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(b) Foreign currency translation**

The Financial Information is presented in RMB, being the functional and presentation currency of the Bank's operations in Mainland China. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Foreign currency transactions are translated into the functional currency using the exchange rates ruling at the dates of transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the applicable exchange rates ruling at the balance sheet date. Exchange differences arising on the settlement of monetary items or on translating monetary items at year/period end rates are recognised in the income statement.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates ruling at the dates of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates ruling at the date when the fair value was determined.

At each balance sheet date, the assets and liabilities of the subsidiaries and branches outside Mainland China are translated into the presentation currency of the Group at the exchange rates ruling at the balance sheet date. Their income statements are translated at the weighted average exchange rates for the year/period. The exchange differences arising on translation are taken directly to the foreign currency translation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated income statement.

(c) Financial assets

Financial assets in the scope of IAS 39 are classified as financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial assets.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets which are either classified as held for trading or designated by the Group as fair value through profit or loss upon initial recognition. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)****2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(c) Financial assets (continued)**

A financial asset, other than one held for trading, may be designated as financial asset at fair value through profit or loss upon initial recognition, if it meets the criteria set out below, and is so designated by management:

- eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the financial assets or financial liabilities or recognising the gains and losses on them on different bases;
- applies to a group of financial assets, financial liabilities or both that is managed and its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and where information about that group of financial instruments is provided internally on that basis to key management personnel; or
- relates to financial instruments containing one or more embedded derivatives that significantly modify the cash flows resulting from those financial instruments.

After initial recognition, these financial assets are measured at fair value. All related realised and unrealised gains or losses are included in the income statement.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and a fixed maturity that the Group has the positive intention and ability to hold to maturity. These investments are carried at amortised cost using the effective interest method, less any allowance for impairment in value. Gains and losses are recognised in the income statement when the held-to-maturity investments are derecognised or impaired, as well as through the amortisation process.

An entity shall not classify any financial assets as held-to-maturity if the entity has, during the current financial year or during the two preceding financial years, sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity (more than insignificant in relation to the total amount of held-to-maturity investments) other than sales or reclassifications that:

(i) are so close to maturity or the financial asset's call date (for example, less than three months before maturity) that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;

(ii) occur after the entity has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or

(iii) are attributable to an isolated event that is beyond the entity's control and is non-recurring and could not have been reasonably anticipated by the entity.

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)****2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(c) Financial assets (continued)***Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Group has no intention of trading the assets immediately or in the near term. Such assets are carried at amortised cost using the effective interest method, less allowance for impairment losses. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition, available-for-sale financial assets are measured at fair value. Premiums and discounts on available-for-sale financial assets are amortised using the effective interest method and are taken to the income statement as interest income. Changes in fair value of available-for-sale financial assets are recognised as a separate component of equity until the financial asset is derecognised or until the financial asset is determined to be impaired at which time the cumulative gains or losses previously reported in equity are included in the income statement.

(d) Impairment of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence of impairment of financial assets as a result of one or more events that occur after the initial recognition of those assets ("loss event") and whether the loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an impairment allowance account and the amount of the loss is recognised in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)****2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(d) Impairment of financial assets (continued)**

assessed for impairment. 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 of impairment.

Future cash flows of a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the impact of current conditions that did not affect the period on which the historical loss experience is based and to eliminate the impact of historical conditions that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group.

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be attributed objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

When a loan and receivable is uncollectible, it is written off against the related allowance for impairment losses. Such loans and receivables are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of the amounts previously written off decrease the amount of the provision for impairment losses in the income statement.

Financial assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has incurred, the amount of impairment loss is measured as the difference between the carrying amount of that financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement.

Reversals in respect of equity instruments classified as available-for-sale are not recognised in the income statement. Reversals of impairment losses on debt instruments classified as available-for-sale are reversed through the income statement, if the increase in fair value of the

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)****2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(d) Impairment of financial assets (continued)**

instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

(e) Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or deposits, debt securities issued or other financial liabilities.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are financial liabilities which are either classified as held for trading or, based on the criteria in note 2.3(c), designated by the Group as fair value through profit or loss upon initial recognition. Gains and losses from changes in fair value are recognised in the income statement.

Deposits, debt securities issued and other financial liabilities

Deposits, debt securities issued other than those designated as trading liabilities or at fair value through profit or loss, and other financial liabilities are carried at amortised cost.

(f) Derecognition of financial assets and liabilities*Financial assets*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the assets have expired;
- the Group retains the right to receive cash flows from the assets, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (i) has transferred substantially all the risks and rewards of ownership of the financial asset; or (ii) has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)****2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(f) Derecognition of financial assets and liabilities (continued)**

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

(g) Derivatives and hedge accounting

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with foreign currency and interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the hybrid instrument is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with the changes in fair value recognised in the income statement.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

For the purpose of hedge accounting, hedges are classified as fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)****2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(g) Derivatives and hedge accounting (continued)**

objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Certain derivative transactions, while providing effective economic hedges under the Group's risk management positions, do not qualify for hedge accounting under the IAS 39 and are therefore treated as derivatives held for trading with fair value gains or losses recognised in the income statement. Hedges which meet the strict criteria for hedge accounting are accounted for in accordance with the Group's accounting policy as set out below.

Fair value hedges are hedges of the Group's exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged, the derivative is remeasured at fair value and gains and losses from both are taken to the income statement.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the income statement over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised and charged to the income statement.

Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the income statement. The changes in the fair value of the hedging instrument are also recognised in the income statement.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised and charged to the income statement. Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)****2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(h) Trade date accounting**

All regular way purchases and sales of financial assets are recognised at the trade date, i.e., the date that the Group commits to purchase the assets. A regular way purchase or sale is the purchase or sale of financial assets that requires delivery of assets within the time frame generally established by regulation or convention in the marketplace.

(i) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet only when the Group has a legally enforceable right to offset such amounts with the same counterparty and transactions are expected to be settled on a net basis.

(j) Repurchase and reverse repurchase transactions

The Group enters into purchases of assets under agreements to resell and sales of assets under agreements to repurchase. Assets purchased under agreements to resell at a pre-determined price on a specific future date are treated as loans collateralised by the assets and are included in reverse repurchase agreements. Assets sold under agreements to repurchase at a pre-determined price on a specific future date continue to be recognised in the balance sheet. The proceeds from the sale of these assets are treated as liabilities and included in repurchase agreements.

Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements are recognised as interest income and interest expense, respectively, on a time proportion basis.

(k) Property and equipment

Prior to June 30, 2005, property and equipment were stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after an item of property and equipment has been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets, the expenditure is capitalised as an additional cost of the assets.

In preparation for the Restructuring, ICBC valued its property and equipment at June 30, 2005. The surplus arising therefrom was capitalised as share capital of the joint-stock limited company upon the incorporation of the Bank. Further details of the valuation are set out in note 20 to the Financial Information.

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)****2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(k) Property and equipment (continued)**

As from June 30, 2005, property and equipment (except for leasehold improvements) are carried at valuation, less accumulated depreciation and any impairment losses. Fair value is determined by reference to market-based evidence, which is the amount for which the asset could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation deficit of the same asset previously recognised in the income statement, in which case the surplus is recognised in the income statement. A revaluation deficit is recognised in the income statement, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the asset revaluation reserve.

An annual transfer from the asset revaluation reserve to retained profits is made for the difference between the depreciation amount based on the revalued carrying amount of the assets and the depreciation amount based on the original cost of the assets. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal of an asset, any asset revaluation reserve relating to the particular asset being sold is transferred to retained profits.

Construction in progress comprises the direct costs of construction during the period of construction and is not depreciated. Construction in progress is reclassified to the appropriate category of property and equipment when completed and ready for use.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset, less any estimated residual value, over the estimated useful life of each asset as follows:

	<u>Estimated useful lives</u>
Properties and buildings	5 to 35 years
Leasehold improvements	Economic useful life or remaining lease terms, whichever is shorter
Office equipment and computers	3 to 5 years
Motor vehicles	4 to 6 years

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year/period the asset is derecognised.

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)****2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(k) Property and equipment (continued)**

Residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each year/period end.

(l) Land use rights

Land use rights are recognised at cost, being the fair value at the time of injection from the Government (note 1(b)(iv)) or the consideration paid. The rights are amortised using the straight-line basis over the period of the leases. When the prepaid land lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the properties and buildings as finance leases in property and equipment.

(m) Repossessed assets

Repossessed assets are initially recognised at cost and reviewed at each balance sheet date by the management of the Group to assess whether they are recorded in excess of their recoverable amount, and if their carrying value exceeds the recoverable amount, the assets are written down. Impairment losses are charged to the income statement.

(n) Goodwill

Goodwill arising from a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. An impairment loss recognised for goodwill is not reversed in a subsequent period.

(o) Impairment of assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined on an individual basis, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered to be impaired and is written down to its recoverable amount. In assessing value in use of an asset, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the income statement under those expense categories consistent with the function of the impaired assets, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)****2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(o) Impairment of assets (continued)**

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of any depreciation/amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement unless the asset is carried at revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset. After such a reversal, the depreciation/amortisation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(p) Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand, amounts due from central banks with original maturity of three months or less, amounts due from banks and other financial institutions with original maturity of three months or less, reverse repurchase agreements with original maturity of three months or less, and short term highly liquid investments which are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value, and which are within three months of maturity when acquired.

(q) Operating leases

Leases where substantially all the risks and rewards of ownership of the assets remain with the lessor are accounted for as operating leases. Rental payments applicable to such operating leases are charged to the income statement on the straight-line basis over the lease terms.

(r) Related parties

A party is considered to be related to the Group if:

- (i) the party, directly or indirectly through one or more intermediaries, (a) controls, is controlled by, or is under common control with, the Group; (b) has an interest in the Group that gives it significant influence over the Group; or (c) has joint control over the Group;
- (ii) the party is an associate of the Group;
- (iii) the party is a joint venture in which the Group is a venturer;
- (iv) the party is a member of the key management personnel of the Group or its parent;
- (v) the party is a close member of the family of any individual referred to in (i) or (iv);

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)****2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(r) Related parties (continued)**

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

(s) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and when the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest income

Interest income is recognised as it accrues (using the effective interest method by applying the rate that exactly discounts estimated future cash receipts through the expected life of a financial instrument to the net carrying amount of the financial asset). Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is thereafter recognised using the interest rate used to discount the future cash flows for the purpose of measuring the impairment loss.

Fee and commission income

Fee and commission income is recognised when the services have been rendered and the proceeds can be reasonably estimated.

Dividend income

Dividend income is recognised when the shareholders' right to receive payment has been established.

(t) Income tax*Current tax*

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance sheet date.

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)****2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(t) Income tax (continued)***Deferred income tax*

Deferred income tax is provided using the liability method on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred income tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)****2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(t) Income tax (continued)**

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

(u) Employee benefits*Short term employee benefits*

Salaries and bonuses, social security contributions and other short term employee benefits are accrued in the period in which services are rendered by the employees of the Group.

Defined contribution plans

According to the statutory requirements in Mainland China, the Group is required to make contributions to the pension and insurance schemes that are separately administered by the local government authorities.

In addition, employees in Mainland China can also voluntarily participate in a contribution retirement benefit plan established by the Bank (the "Annuity Plan").

All eligible employees outside Mainland China participate in local defined contribution schemes. The Group contributes to these defined contribution plans based on a certain percentage of the employees' basic salaries.

Contributions to these plans are recognised in the income statement as incurred.

Supplementary retirement benefits

Certain employees of the Group in Mainland China can enjoy supplementary retirement benefits after retirement, which include supplementary pension and supplementary medical benefits. These benefits are unfunded. The cost of providing benefits is determined using the projected unit credit actuarial valuation method. The present value of such benefits is recorded under "other liabilities" in the balance sheet. Actuarial gains and losses are recognised in the income statement in the period in which they occur.

(v) Acceptances

Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously upon reimbursement from customers. Acceptances are accounted for as off-balance sheet transactions and are disclosed as commitments.

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)****2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(w) Fiduciary activities**

Where the Group acts in a fiduciary capacity such as nominee, trustee or agent, assets arising thereon together with related undertakings to return such assets to customers are excluded from the balance sheet.

The Group grants entrusted loans on behalf of third-party lenders, which are recorded off-balance sheet. The Group, as an agent, grants such entrusted loans to borrowers under the direction of those third-party lenders who fund these loans. The Group has been contracted by those third-party lenders to manage the administration and collection of these loans on their behalf. Those third-party lenders determine both the underwriting criteria for and the terms of all entrusted loans including their purposes, amounts, interest rates, and repayment schedules. The Group charges a commission related to its activities in connection with entrusted loans which is recognised ratably over the period in which the service is provided. The risk of loss is borne by those third-party lenders.

(x) Financial guarantee contracts

The Group issues letters of credit and letters of guarantee. These financial guarantee contracts provide for specified payments to be made to reimburse the holder for a loss it incurs when a guaranteed party defaults under the original or modified terms of a debt instrument, loan or other obligation.

The Group initially measures all financial contracts at fair value. This amount is recognised ratably over the period of the contract to fee and commission income. Subsequently, the liabilities are measured as the higher of the initial fair value less cumulative amortisation and the fair value of the provision related to the Group's obligation under the contract. The change in fair value of the provision due to impairment is recognised in the income statement as impairment losses.

(y) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expenses relating to any provision is presented in the income statement net of any reimbursement. 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, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)****2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(z) Contingent liabilities**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

Contingent liabilities are not recognised but are disclosed in the notes to the Financial Information. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****3. NET INTEREST INCOME**

	<u>Year ended December 31,</u>			<u>Six months ended June 30,</u>	
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2005 (Unaudited)</u>	<u>2006</u>
Interest income on:					
Loans and advances to customers	147,354	160,168	175,285	84,961	89,570
Due from central banks	7,523	8,286	8,967	4,331	4,508
Due from banks and other financial institutions	3,628	2,238	4,470	1,268	3,625
Investment securities	30,564	34,197	51,480	21,723	31,335
	<u>189,069</u>	<u>204,889</u>	<u>240,202</u>	<u>112,283</u>	<u>129,038</u>
Interest expense on:					
Due to customers	(60,423)	(65,821)	(80,753)	(37,865)	(48,415)
Due to a central bank	(218)	(85)	(44)	(42)	—
Due to banks and other financial institutions	(5,720)	(4,215)	(5,312)	(2,583)	(3,499)
Debt issued	—	(40)	(490)	(68)	(616)
	<u>(66,361)</u>	<u>(70,161)</u>	<u>(86,599)</u>	<u>(40,558)</u>	<u>(52,530)</u>
Net interest income	<u>122,708</u>	<u>134,728</u>	<u>153,603</u>	<u>71,725</u>	<u>76,508</u>

The amounts of accretion of impairment provision discount (note 16) included in interest income are as follows:

	<u>Year ended December 31,</u>			<u>Six months ended June 30,</u>	
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2005 (Unaudited)</u>	<u>2006</u>
Accretion of impairment provision discount	<u>9,844</u>	<u>9,876</u>	<u>8,349</u>	<u>5,657</u>	<u>896</u>

4. FEE AND COMMISSION INCOME

	<u>Year ended December 31,</u>			<u>Six months ended June 30,</u>	
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2005 (Unaudited)</u>	<u>2006</u>
Renminbi settlement and clearing business	1,719	2,374	2,824	1,279	2,153
Bank card business	1,001	1,616	2,346	999	1,355
Investment banking business	796	1,234	2,018	974	1,764
Wealth management services	1,446	1,843	1,929	714	1,409
Agency services	815	963	1,081	454	599
Foreign currency intermediary business	654	778	879	376	493
E-banking business	114	235	421	200	335
Custody services	86	182	263	127	143
Guarantee and commitment business	163	166	261	126	238
Others	265	389	354	253	272
	<u>7,059</u>	<u>9,780</u>	<u>12,376</u>	<u>5,502</u>	<u>8,761</u>

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****5. OTHER OPERATING INCOME**

	Year ended December 31,			Six months ended June 30,	
	2003	2004	2005	2005 (Unaudited)	2006
Dividend income from unlisted investments	3	17	2	—	3
Gain from foreign exchange and foreign exchange products, net	1,190	894	2,255	1,681	218
Gain/(loss) on investments in securities, net	553	358	107	405	(341)
Gain/(loss) from other dealing activities, net	(326)	660	1,207	662	410
Gain on disposal of property and equipment and other assets, net	482	814	626	707	166
Sundry bank charges income	893	744	1,309	522	226
Others	1,657	1,536	1,965	523	694
	<u>4,452</u>	<u>5,023</u>	<u>7,471</u>	<u>4,500</u>	<u>1,376</u>

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****6. OPERATING EXPENSES**

	Year ended December 31,			Six months ended June 30,	
	2003	2004	2005	2005 (Unaudited)	2006
Staff costs (including directors' and supervisors' emoluments (note 7)):					
Salaries and bonuses	13,435	14,767	18,975	6,490	9,704
Contributions to defined contribution plans (i)	1,573	1,946	2,413	1,205	1,694
Other staff benefits	5,173	5,510	6,602	2,376	3,287
	<u>20,181</u>	<u>22,223</u>	<u>27,990</u>	<u>10,071</u>	<u>14,685</u>
Supplementary retirement benefits (note 27(iii))	193	(2,677)	4,770	2,987	389
Premises and equipment expenses:					
Depreciation (note 20)	8,654	8,977	9,852	4,571	5,053
Minimum lease payments under operating leases in respect of land and buildings	1,704	1,698	1,895	792	882
Utility expenses	1,229	1,247	1,406	625	648
Repairs and maintenance charges	1,071	913	1,256	529	670
	<u>12,658</u>	<u>12,835</u>	<u>14,409</u>	<u>6,517</u>	<u>7,253</u>
Other administrative expenses (ii)	10,442	10,383	10,484	4,981	4,564
Amortisation	752	710	712	288	513
Business tax and surcharges	7,279	8,270	9,419	4,361	5,368
Expenses in relation to special government bond (note 17(a)(ii))	6,120	6,120	5,610	3,060	—
Others	4,950	4,775	8,191	1,699	1,924
	<u>62,575</u>	<u>62,639</u>	<u>81,585</u>	<u>33,964</u>	<u>34,696</u>

- (i) Contributions to defined contribution plans mainly include contributions to the state pension and insurance schemes and the Bank's Annuity Plan. During the Relevant Periods and the six months ended June 30, 2005 (unaudited) and at the end of each of the Relevant Periods, the Group's forfeited contributions available to reduce its contributions to the Annuity Plan in future years were not material.
- (ii) Included in other administrative expenses are auditors' remuneration of RMB44 million, RMB50 million and RMB49 million for each of the years ended December 31, 2003, 2004 and 2005, respectively, and RMB25 million and RMB70 million for the six months ended June 30, 2005 (unaudited) and 2006, respectively.

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****7. DIRECTORS' AND SUPERVISORS' EMOLUMENTS**

Details of the directors' and supervisors' emoluments are as follows:

	Year ended December 31,			Six months ended June 30,	
	2003	2004	2005	2005 (Unaudited)	2006
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Fees	—	—	365	—	730
Other emoluments:					
Salaries, allowances and benefits in kind	—	—	329	—	614
Discretionary bonuses	—	—	183	—	2,100
Contributions to defined contribution plans	—	—	196	—	250
	—	—	1,073	—	3,694
	==	==	==	==	==

The number of directors and supervisors whose emoluments fell within the following band is as follows:

	Year ended December 31,			Six months ended June 30,	
	2003	2004	2005	2005 (Unaudited)	2006
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Nil to RMB1,000,000	—	—	17	—	18
	==	==	==	==	==

The Bank was incorporated on October 28, 2005 and first appointed directors and supervisors on the same day. Accordingly, prior to that date, there were no directors' and supervisors' emoluments. Included in the fees are amounts of RMB245,000 and RMB490,000 paid to independent non-executive directors for the year ended December 31, 2005 and for the six months ended June 30, 2006, respectively.

Other non-executive directors received no fees and emoluments from the Group for the year ended December 31, 2005 and for the six months ended June 30, 2006.

One of the Bank's executive directors, who are also a director of a subsidiary of the Bank, waived emoluments amounting to RMB85,288, RMB122,360 and RMB176,953 for the years ended December 31, 2003, 2004 and 2005, respectively, which were payable as discretionary bonuses to certain employees who contribute to the success of operations of the Bank's subsidiary. Therefore, those emoluments were not included in the directors' emoluments disclosed above. Save as above, there was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration during the Relevant Periods and the six months ended June 30, 2005 (unaudited).

During the Relevant Periods and the six months ended June 30, 2005 (unaudited), no emoluments were paid by the Group to any of the persons who are directors or supervisors as an inducement to join or upon joining the Group or as compensation for loss of office.

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****8. FIVE HIGHEST PAID INDIVIDUALS**

The five highest paid individuals of the Group are employees of the Bank's overseas subsidiaries/branches. Their emoluments were determined based on the prevailing market rates in the respective countries/regions where the subsidiaries/branches are operating. None of them are directors, supervisors or key management personnel of the Bank whose emoluments are disclosed in note 7 or 39(e) to the Financial Information. Details of the emoluments in respect of the five highest paid individuals are as follows:

	Year ended December 31,			Six months ended June 30,	
	2003	2004	2005	2005 (Unaudited)	2006
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Salaries, allowances and benefits in kind . . .	8,738	10,012	13,695	6,190	6,957
Discretionary bonuses	5,964	5,929	3,399	—	—
Contributions to defined contribution plans	785	955	972	446	595
	<u>15,487</u>	<u>16,896</u>	<u>18,066</u>	<u>6,636</u>	<u>7,552</u>

The number of these individuals whose emoluments fell within the following bands is set out below. For the six months ended June 30, 2005 (unaudited) and 2006, the corresponding emoluments of each band represent the amounts attributable to the six months periods only.

	Year ended December 31,			Six months ended June 30,	
	2003	2004	2005	2005 (Unaudited)	2006
Nil to RMB1,000,000	—	—	—	1	—
RMB1,000,001 to RMB1,500,000	—	—	—	3	3
RMB1,500,001 to RMB2,000,000	1	—	—	—	1
RMB2,000,001 to RMB2,500,000	1	—	—	1	1
RMB2,500,001 to RMB3,000,000	—	—	2	—	—
RMB3,000,001 to RMB3,500,000	1	3	—	—	—
RMB3,500,001 to RMB4,000,000	1	2	1	—	—
RMB4,000,001 to RMB4,500,000	1	—	2	—	—
	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>

During the Relevant Periods and the six months ended June 30, 2005 (unaudited), no emoluments were paid by the Group to any of these non-director and non-supervisor individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****9. PROVISIONS FOR IMPAIRMENT LOSSES ON ASSETS OTHER THAN LOANS AND ADVANCES**

	Notes	Year ended December 31,			Six months ended June 30,	
		2003	2004	2005	2005 (Unaudited)	2006
Charge/(reversal) of provision for impairment losses on:						
Nostro accounts	14	—	—	(6)	—	4
Placements with banks and other financial institutions	14	6	—	28	2	(33)
Investment securities	17(e)	789	—	13	—	15
Property and equipment	20	100	—	289	59	188
Repossessed assets	22	484	348	101	104	399
		<u>1,379</u>	<u>348</u>	<u>425</u>	<u>165</u>	<u>573</u>

10. INCOME TAX EXPENSE

PRC income tax has been provided at the statutory rate of 33% in accordance with the relevant tax laws in Mainland China during the Relevant Periods and the six months ended June 30, 2005 (unaudited). Taxes on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the countries/regions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Year ended December 31,			Six months ended June 30,	
	2003	2004	2005	2005 (Unaudited)	2006
Current income tax:					
PRC					
—Mainland China	4	3,141	14,563	1	15,115
—Hong Kong and Macau	160	207	220	117	151
Overseas	42	57	53	16	34
	206	3,405	14,836	134	15,300
Overprovision in prior years	—	—	—	—	(1,359)
	206	3,405	14,836	134	13,941
Deferred income tax expense/(credit)	11,086	19,788	10,171	9,823	(742)
Total income tax expense for the year/period	<u>11,292</u>	<u>23,193</u>	<u>25,007</u>	<u>9,957</u>	<u>13,199</u>

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****10. INCOME TAX EXPENSE (continued)**

A reconciliation of income tax expense applicable to profit before tax at the PRC statutory income tax rate of 33% to income tax expense at the Group's effective income tax rate is as follows:

	Year ended December 31,			Six months ended June 30,	
	2003	2004	2005	2005 (Unaudited)	2006
Profit before tax	33,884	54,411	63,026	35,405	38,841
Tax at the PRC statutory income tax rate	11,182	17,956	20,799	11,684	12,818
Non-deductible expenses (i)					
Staff costs	2,983	3,576	5,687	1,723	2,792
Write-offs	465	3,274	3,506	70	1,256
Others	1,589	3,491	745	91	367
	5,037	10,341	9,938	1,884	4,415
Non-taxable income					
Income arising from bonds exempted from income tax (ii)	(4,748)	(4,934)	(5,477)	(3,437)	(1,801)
Others	(179)	(170)	(253)	(174)	(874)
	(4,927)	(5,104)	(5,730)	(3,611)	(2,675)
Overprovision in prior years	—	—	—	—	(1,359)
Tax expense at the Group's effective income tax rate	11,292	23,193	25,007	9,957	13,199

- (i) The amounts mainly represent staff costs in excess of the statutory deductible threshold for income tax purposes, write-offs not approved by the tax authorities, and entertainment expenses, depreciation and amortisation charges which are not deductible for tax purposes.
- (ii) The amounts mainly comprise interest income from the PRC government bonds and Huarong bonds which are exempted from income tax. According to a notice issued by the MOF in 2005, interest income from Huarong bonds is subject to income tax from July 1, 2005 onwards.

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****10. INCOME TAX EXPENSE (continued)**

Deferred income tax expense/(credit) relates to the following origination and reversal of temporary differences:

	Year ended December 31,			Six months ended June 30,	
	2003	2004	2005	2005 (Unaudited)	2006
Provisions for impairment losses on loans and advances and other assets (i)	6,424	16,063	4,278	5,206	(293)
Adjustment of overdue interest receivables (ii)	3,719	3,041	954	954	—
Provision for housing reform losses (iii)	1,007	894	2,548	2,548	—
Amortisation and interest recognition for short term debt securities (iv)	212	685	(486)	(1,027)	(541)
Changes in fair value of financial instruments at fair value through profit or loss (v)	(195)	(26)	1,649	464	404
Others	(81)	(869)	1,228	1,678	(312)
Deferred income tax expense/(credit)	<u>11,086</u>	<u>19,788</u>	<u>10,171</u>	<u>9,823</u>	<u>(742)</u>

- (i) Provision for impairment losses on loans and advances and other assets are determined based on the expected recoverable amount of the relevant assets at the balance sheet date for financial reporting purposes while the amounts deductible for tax purposes are calculated at 1% of the gross carrying amount of qualifying assets together with the write-offs which fulfill the specific write-off criteria as set out in the PRC tax rules and approved by the tax authorities.
- (ii) Pursuant to a notice issued by the MOF in 2001, interest receivable was reversed in the consolidated income statement when the interest receivable or the corresponding loan principal becomes overdue for more than 90 days. Adjustment of interest income arising from the change of interest accrual policy in 2001 is however allowed to be deducted for tax purposes over five years from 2001 to 2005.
- (iii) Pursuant to the one-off housing reform policy in Mainland China in 1998, the Group allocated certain staff quarters to eligible employees for nominal consideration. Losses arising from the allocation were recognised in the consolidated income statement prior to 2001 for financial reporting purposes. Such losses were allowed to be deducted for tax purposes over five years from 2001 to 2005.
- (iv) Amortisation of premium and discount and the interest income for short term debt investments are taxed upon disposal or maturity of these investments.
- (v) Fair value adjustments for other financial instruments at fair value through profit or loss are subject to income tax only when realised.

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****11. DIVIDEND**

The proposed final dividend of approximately RMB0.014 per share amounted to RMB3,537 million in total for the year ended December 31, 2005 was approved in a meeting of the shareholders of the Bank held on April 28, 2006.

Pursuant to the arrangement as approved in the meetings of the board of directors and shareholders held on July 28, 2006 and July 31, 2006, respectively, after the appropriation to surplus reserves and general reserve during the six months ended June 30, 2006, a dividend of approximately RMB0.065 per share amounted to RMB18,593 million in total was proposed.

12. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK

The calculation of basic and diluted earnings per share amounts is based on the following:

	Year ended December 31,			Six months ended June 30,	
	2003	2004	2005	2005 (Unaudited)	2006
Earnings:					
Consolidated profit for the year/period attributable to equity holders of the Bank	<u>22,472</u>	<u>30,863</u>	<u>37,555</u>	<u>25,161</u>	<u>25,399</u>
Shares:					
Weighted average number of shares in issue or deemed to be in issue (million)	<u>248,000</u>	<u>248,000</u>	<u>248,000</u>	<u>248,000</u>	<u>256,710</u>
Earnings per share (RMB)	<u>0.09</u>	<u>0.12</u>	<u>0.15</u>	<u>0.10</u>	<u>0.10</u>

On October 28, 2005, with the approval of the State Council, ICBC was restructured and incorporated as a joint-stock limited company with a registered capital of RMB248,000 million divided into 248,000 million shares with a par value of RMB1 each. Basic and diluted earnings per share amounts for each of the years ended December 31, 2003, 2004 and 2005 and for the six months ended June 30, 2005 (unaudited) have been computed as if the 248,000 million shares had been in issue since January 1, 2003.

On April 28, 2006, the Bank issued a total of 24,185 million new shares of RMB1 each to The Goldman Sachs Group Inc. ("Goldman Sachs"), Dresdner Bank Luxembourg S.A. and American Express Company. On June 29, 2006, the Bank issued an additional 14,324 million new shares of RMB1 each to the National Council for Social Security Fund. The above share issues are set out in further detail in note 28 to the Financial Information.

There was no difference between the basic and diluted earnings per share as there were no dilutive events for the years ended December 31, 2003, 2004 and 2005 and for the six months ended June 30, 2005 (unaudited) and 2006.

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****13. CASH AND BALANCES WITH CENTRAL BANKS***Group*

	December 31,			June 30,
	2003	2004	2005	2006
Cash on hand (note 37(b))	29,585	29,894	30,085	31,756
Balances with central banks other than restricted deposits (note 37(b))	100,457	79,038	69,650	85,250
Unrestricted cash and balances with central banks	130,042	108,932	99,735	117,006
Mandatory reserve deposits with central banks	306,678	365,017	414,924	433,408
Other restricted deposits with central banks	21,096	34,667	39,214	47,855
Restricted balances with central banks	327,774	399,684	454,138	481,263
	457,816	508,616	553,873	598,269

Bank

	December 31,			June 30,
	2003	2004	2005	2006
Cash on hand	29,540	29,735	29,905	31,529
Balances with central banks other than restricted deposits	100,446	79,027	69,530	85,055
Unrestricted cash and balances with central banks	129,986	108,762	99,435	116,584
Mandatory reserve deposits with central banks	306,677	365,016	414,923	433,405
Other restricted deposits with central banks	21,096	34,667	39,214	47,855
Restricted balances with central banks	327,773	399,683	454,137	481,260
	457,759	508,445	553,572	597,844

Mandatory reserve deposits and other restricted deposits with central banks are not available for use in the Group's daily operations. The Group is required to place mandatory reserve deposits with the PBOC and the central banks of overseas countries or regions where it has operations.

The amounts of mandatory reserve deposits placed with the PBOC were calculated based on the eligible RMB and foreign currency deposits for domestic branches in Mainland China in accordance with the following percentages:

RMB deposits

From January 1, 2003	6.0%
From September 22, 2003	7.0%
From April 25, 2004 onwards	7.5%

Foreign currency deposits

From January 1, 2003	2.0%
From January 16, 2005 onwards	3.0%

Mandatory reserve deposits placed with central banks in other countries/regions outside Mainland China are determined by the local regulators.

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****14. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS*****Group***

	December 31,			June 30,
	2003	2004	2005	2006
Nostro accounts:				
Banks operating in Mainland China	4,733	5,649	5,891	7,395
Banks operating outside Mainland China	<u>5,885</u>	<u>6,556</u>	<u>10,568</u>	<u>9,321</u>
	10,618	12,205	16,459	16,716
Less: Allowance for impairment losses	<u>(181)</u>	<u>(181)</u>	<u>(28)</u>	<u>(31)</u>
	<u>10,437</u>	<u>12,024</u>	<u>16,431</u>	<u>16,685</u>
Placements with banks and other financial institutions:				
Banks operating in Mainland China	2,870	3,362	8,842	13,631
Other financial institutions operating in Mainland China . . .	10,004	7,999	1,828	1,288
Banks and other financial institutions operating outside Mainland China	<u>49,292</u>	<u>51,797</u>	<u>105,246</u>	<u>99,681</u>
	62,166	63,158	115,916	114,600
Less: Allowance for impairment losses	<u>(6,594)</u>	<u>(5,752)</u>	<u>(185)</u>	<u>(152)</u>
	<u>55,572</u>	<u>57,406</u>	<u>115,731</u>	<u>114,448</u>
	<u>66,009</u>	<u>69,430</u>	<u>132,162</u>	<u>131,133</u>

Bank

	December 31,			June 30,
	2003	2004	2005	2006
Nostro accounts:				
Banks operating in Mainland China	4,591	5,549	5,886	6,918
Banks operating outside Mainland China	<u>4,646</u>	<u>4,999</u>	<u>10,237</u>	<u>8,658</u>
	9,237	10,548	16,123	15,576
Less: Allowance for impairment losses	<u>(181)</u>	<u>(181)</u>	<u>(28)</u>	<u>(31)</u>
	<u>9,056</u>	<u>10,367</u>	<u>16,095</u>	<u>15,545</u>
Placements with banks and other financial institutions:				
Banks operating in Mainland China	2,208	4,190	8,802	14,438
Other financial institutions operating in Mainland China . . .	10,004	7,999	1,828	1,288
Banks and other financial institutions operating outside Mainland China	<u>61,340</u>	<u>58,030</u>	<u>103,386</u>	<u>81,061</u>
	73,552	70,219	114,016	96,787
Less: Allowance for impairment losses	<u>(6,594)</u>	<u>(5,752)</u>	<u>(185)</u>	<u>(152)</u>
	<u>66,958</u>	<u>64,467</u>	<u>113,831</u>	<u>96,635</u>
	<u>76,014</u>	<u>74,834</u>	<u>129,926</u>	<u>112,180</u>

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****14. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS (continued)**

Analysed by legal form of counterparty:

Group

	December 31,			June 30,
	2003	2004	2005	2006
Policy banks	3	—	—	1,000
State-owned banks	14,329	8,752	11,869	8,422
Joint-stock banks	5,186	6,808	4,717	6,517
Others (i)	53,266	59,803	115,789	115,377
	72,784	75,363	132,375	131,316
Less: Allowance for impairment losses	(6,775)	(5,933)	(213)	(183)
	<u>66,009</u>	<u>69,430</u>	<u>132,162</u>	<u>131,133</u>

Bank

	December 31,			June 30,
	2003	2004	2005	2006
Policy banks	3	—	—	1,000
State-owned banks	13,906	7,591	10,736	7,914
Joint-stock banks	5,184	6,804	4,663	5,879
Others (i)	63,696	66,372	114,740	97,570
	82,789	80,767	130,139	112,363
Less: Allowance for impairment losses	(6,775)	(5,933)	(213)	(183)
	<u>76,014</u>	<u>74,834</u>	<u>129,926</u>	<u>112,180</u>

(i) Balances included amounts due from banks incorporated outside Mainland China and amounts due from other financial institutions.

Movements of allowance for impairment losses during the Relevant Periods were as follows:

Group and Bank

	Year ended December 31,			Six months ended June 30,
	2003	2004	2005	2006
Nostro accounts:				
At beginning of the year/period	189	181	181	28
Charge/(reversal) for the year/period (note 9)	—	—	(6)	4
Disposals/write-offs	(8)	—	(147)	(1)
At end of the year/period	<u>181</u>	<u>181</u>	<u>28</u>	<u>31</u>
Placements with banks and other financial institutions:				
At beginning of the year/period	6,588	6,594	5,752	185
Charge/(reversal) for the year/period (note 9)	6	—	28	(33)
Disposals/write-offs	—	(842)	(5,595)	—
At end of the year/period	<u>6,594</u>	<u>5,752</u>	<u>185</u>	<u>152</u>

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****14. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS (continued)**

Included in nostro accounts and placements with banks and other financial institutions are balances with original maturity of three months or less, which have been included in cash and cash equivalents in the consolidated cash flow statements (note 37(b)), as follows:

Group

	December 31,			June 30,
	2003	2004	2005	2006
Cash equivalents:				
Nostro accounts	8,814	6,745	8,095	15,601
Placements with banks and other financial institutions	17,883	21,996	88,080	66,362

15. REVERSE REPURCHASE AGREEMENTS**Group and Bank**

	December 31,			June 30,
	2003	2004	2005	2006
Analysed by counterparty:				
Banks	60,859	16,397	76,804	81,980
Other financial institutions	10,380	5,367	12,431	23,562
	71,239	21,764	89,235	105,542
Analysed by collateral:				
Securities	56,400	16,173	82,164	89,929
Bills	13,280	4,286	5,994	5,696
Loans	1,559	1,305	1,077	9,917
	71,239	21,764	89,235	105,542

Under certain reverse repurchase agreements, the Group received collaterals that are permitted to be sold or repledged in the absence of default by the owners of the collaterals. The fair value of the collaterals received on such terms amounted to nil, RMB631 million, RMB565 million and nil as at December 31, 2003, 2004 and 2005 and June 30, 2006, respectively.

Included in reverse repurchase agreements are balances with original maturity of three months or less, which have been included in cash and cash equivalents in the consolidated cash flow statements (note 37(b)), as follows:

Group

	December 31,			June 30,
	2003	2004	2005	2006
Cash equivalents				
Reverse repurchase agreements	55,739	14,733	81,302	92,554

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****16. LOANS AND ADVANCES TO CUSTOMERS***Group*

	December 31,			June 30,
	2003	2004	2005	2006
Corporate loans	2,828,223	2,895,337	2,369,411	2,499,556
Personal loans	417,440	502,220	527,361	545,125
Discounted bills	156,614	310,191	392,781	416,399
	3,402,277	3,707,748	3,289,553	3,461,080
Less: Allowance for impairment losses	(636,222)	(598,557)	(83,692)	(85,738)
	<u>2,766,055</u>	<u>3,109,191</u>	<u>3,205,861</u>	<u>3,375,342</u>

Included in corporate loans of the Group are amounts of RMB64,157 million, RMB53,480 million, RMB33,002 million and RMB24,345 million as at December 31, 2003, 2004 and 2005 and June 30, 2006, respectively, relating to advances to banks and other financial institutions.

Bank

	December 31,			June 30,
	2003	2004	2005	2006
Corporate loans	2,792,305	2,841,143	2,306,434	2,437,319
Personal loans	407,705	486,982	515,113	533,105
Discounted bills	156,489	310,148	392,717	416,336
	3,356,499	3,638,273	3,214,264	3,386,760
Less: Allowance for impairment losses	(635,509)	(597,646)	(83,168)	(85,308)
	<u>2,720,990</u>	<u>3,040,627</u>	<u>3,131,096</u>	<u>3,301,452</u>

Included in corporate loans of the Bank are amounts of RMB56,050 million, RMB42,260 million, RMB21,573 million and RMB10,967 million as at December 31, 2003, 2004, 2005 and June 30, 2006, respectively, relating to advances to banks and other financial institutions.

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****16. LOANS AND ADVANCES TO CUSTOMERS (continued)**

The composition of corporate loans by legal form of borrower is as follows:

Group

	December 31,			June 30,
	2003	2004	2005	2006
State-wholly-owned enterprises (i)	1,189,813	1,193,530	595,685	608,543
State-controlled enterprises (i)	396,959	424,622	633,459	657,548
State-invested enterprises (i)	77,933	80,522	68,654	72,451
Joint-stock enterprises	284,344	306,738	289,616	330,134
Private enterprises	257,913	258,363	272,538	312,818
Foreign invested and foreign joint-venture enterprises	227,873	235,418	229,133	240,942
Others (ii)	393,388	396,144	280,326	277,120
Total corporate loans	<u>2,828,223</u>	<u>2,895,337</u>	<u>2,369,411</u>	<u>2,499,556</u>

Bank

	December 31,			June 30,
	2003	2004	2005	2006
State-wholly-owned enterprises (i)	1,189,813	1,193,530	595,685	608,543
State-controlled enterprises (i)	396,959	424,622	633,459	657,548
State-invested enterprises (i)	77,933	80,522	68,654	72,451
Joint-stock enterprises	284,344	306,738	289,616	330,134
Private enterprises	257,913	258,363	272,538	312,818
Foreign invested and foreign joint-venture enterprises	227,873	235,418	229,133	240,942
Others (ii)	357,470	341,950	217,349	214,883
Total corporate loans	<u>2,792,305</u>	<u>2,841,143</u>	<u>2,306,434</u>	<u>2,437,319</u>

(i) Included in identified impaired loans and advances of the Group and of the Bank are amounts of RMB549,226 million, RMB509,798 million, RMB72,045 million and RMB61,211 million as at December 31, 2003, 2004, 2005 and June 30, 2006, respectively, relating to advances to state-owned enterprise including state-wholly-owned enterprises, state-controlled enterprises and state-invested enterprises.

(ii) Balances included corporate loans granted to borrowers located outside Mainland China.

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****16. LOANS AND ADVANCES TO CUSTOMERS (continued)**

Movements of allowance for impairment losses during the Relevant Periods were as follows:

Group

	Year ended December 31,			Six months ended June 30,
	2003	2004	2005	2006
At beginning of the year/period	640,245	636,222	598,557	83,692
Charge for the year/period	34,914	30,511	26,589	11,645
Accreted interest on impaired loans (note 3)	(9,844)	(9,876)	(8,349)	(896)
Transfer in	—	226	—	—
Write-offs	(26,746)	(51,076)	(27,547)	(6,846)
Transfer out (i)	(2,347)	(7,450)	(2,468)	(1,857)
Reversal arising from the Restructuring (ii)	—	—	(503,090)	—
At end of the year/period	<u>636,222</u>	<u>598,557</u>	<u>83,692</u>	<u>85,738</u>

Bank

	Year ended December 31,			Six months ended June 30,
	2003	2004	2005	2006
At beginning of the year/period	639,532	635,509	597,646	83,168
Charge for the year/period	34,792	30,521	26,809	11,595
Accreted interest on impaired loans	(9,831)	(9,868)	(8,339)	(893)
Write-offs	(26,637)	(51,066)	(27,390)	(6,705)
Transfer out (i)	(2,347)	(7,450)	(2,468)	(1,857)
Reversal arising from the Restructuring (ii)	—	—	(503,090)	—
At end of the year/period	<u>635,509</u>	<u>597,646</u>	<u>83,168</u>	<u>85,308</u>

- (i) The balance of allowance transferred out included the allowance transferred to repossessed assets and investments held under debt equity swap arrangements.
- (ii) Upon the disposal of impaired loans and advances during the Restructuring, the allowance for impairment losses amounting to RMB503,090 million (note 1(b)) previously made against these impaired loans and advances was reversed and credited to the capital reserve during the year ended December 31, 2005 as a capital contribution.

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****16. LOANS AND ADVANCES TO CUSTOMERS (continued)***Group*

	December 31,			June 30,
	2003	2004	2005	2006
Loans and advances for which allowance for impairment losses is:				
—individually assessed (i)	820,371	777,803	143,506	132,059
—collectively assessed	<u>2,581,906</u>	<u>2,929,945</u>	<u>3,146,047</u>	<u>3,329,021</u>
	<u>3,402,277</u>	<u>3,707,748</u>	<u>3,289,553</u>	<u>3,461,080</u>
Allowance for impairment losses:				
—individually assessed	605,237	564,367	49,396	49,646
—collectively assessed	<u>30,985</u>	<u>34,190</u>	<u>34,296</u>	<u>36,092</u>
	<u>636,222</u>	<u>598,557</u>	<u>83,692</u>	<u>85,738</u>
Net loans and advances for which allowance for impairment losses is:				
—individually assessed	215,134	213,436	94,110	82,413
—collectively assessed	<u>2,550,921</u>	<u>2,895,755</u>	<u>3,111,751</u>	<u>3,292,929</u>
	<u>2,766,055</u>	<u>3,109,191</u>	<u>3,205,861</u>	<u>3,375,342</u>
Identified impaired loans and advances (ii)	<u>824,648</u>	<u>784,656</u>	<u>154,417</u>	<u>142,030</u>
Percentage of impaired loans and advances	<u>24.24%</u>	<u>21.16%</u>	<u>4.69%</u>	<u>4.10%</u>

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****16. LOANS AND ADVANCES TO CUSTOMERS (continued)***Bank*

	December 31,			June 30,
	2003	2004	2005	2006
Loans and advances for which allowance for impairment losses is:				
—individually assessed (i)	819,658	776,989	142,587	131,514
—collectively assessed	2,536,841	2,861,284	3,071,677	3,255,246
	<u>3,356,499</u>	<u>3,638,273</u>	<u>3,214,264</u>	<u>3,386,760</u>
Allowance for impairment losses:				
—individually assessed	604,898	564,005	49,095	49,472
—collectively assessed	30,611	33,641	34,073	35,836
	<u>635,509</u>	<u>597,646</u>	<u>83,168</u>	<u>85,308</u>
Net loans and advances for which allowance for impairment losses is:				
—individually assessed	214,760	212,984	93,492	82,042
—collectively assessed	2,506,230	2,827,643	3,037,604	3,219,410
	<u>2,720,990</u>	<u>3,040,627</u>	<u>3,131,096</u>	<u>3,301,452</u>
Identified impaired loans and advances (ii)	<u>823,935</u>	<u>783,842</u>	<u>153,498</u>	<u>141,485</u>
Percentage of impaired loans and advances	<u>24.55%</u>	<u>21.54%</u>	<u>4.78%</u>	<u>4.18%</u>

- (i) Loans and advances for which allowance for impairment losses is individually assessed include corporate loans which are graded as substandard, doubtful or loss.
- (ii) Identified impaired loans and advances are defined as those loans and advances having objective evidence of impairment as a result of one or more events that occur after initial recognition and that event has an impact on the estimated future cash flows of loans and advances that can be reliably estimated. These loans and advances include corporate loans and personal loans which are graded as substandard, doubtful or loss.

Included in identified impaired loans and advances of the Group and of the Bank are amounts of RMB906 million, RMB1,058 million, RMB29 million and RMB107 million as at December 31, 2003, 2004, 2005 and June 30, 2006, respectively, relating to advances to banks and other financial institutions.

Included in individually assessed allowance for impairment losses of the Group and of the Bank are amounts of RMB620 million, RMB668 million, RMB29 million and RMB67 million as at December 31, 2003, 2004, 2005 and June 30, 2006, respectively, relating to advances to banks and other financial institutions.

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****16. LOANS AND ADVANCES TO CUSTOMERS (continued)**

The composition of individually assessed allowance for impairment losses of corporate loans by legal form of borrower is as follows:

Group

	December 31,			June 30,
	2003	2004	2005	2006
State-wholly-owned enterprises	378,737	351,267	17,072	15,433
State-controlled enterprises	22,151	12,117	6,465	6,562
State-invested enterprises	2,551	4,876	2,333	2,699
Joint-stock enterprises	76,716	62,012	7,333	7,244
Private enterprises	16,398	19,951	6,483	7,651
Foreign invested and foreign joint-venture enterprises	20,873	18,719	3,466	4,719
Others	87,811	95,425	6,244	5,338
Total individually assessed allowance for impairment losses	<u>605,237</u>	<u>564,367</u>	<u>49,396</u>	<u>49,646</u>

Company

	December 31,			June 30,
	2003	2004	2005	2006
State-wholly-owned enterprises	378,737	351,267	17,072	15,433
State-controlled enterprises	22,151	12,117	6,465	6,562
State-invested enterprises	2,551	4,876	2,333	2,699
Joint-stock enterprises	76,716	62,012	7,333	7,244
Private enterprises	16,398	19,951	6,483	7,651
Foreign invested and foreign joint-venture enterprises	20,873	18,719	3,466	4,719
Others	86,336	95,063	5,943	5,164
Total individually assessed allowance for impairment losses	<u>603,762</u>	<u>564,005</u>	<u>49,095</u>	<u>49,472</u>

(I) FINANCIAL INFORMATION (continued)

Notes to the Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

17. INVESTMENT SECURITIES

Group

	Notes	December 31,			June 30,
		2003	2004	2005	2006
Receivables	(a)	397,996	397,996	1,074,461	1,078,786
Held-to-maturity debt securities	(b)	363,827	428,229	882,704	1,079,366
Available-for-sale investments	(c)	257,290	390,742	330,183	449,202
Investments at fair value through profit or loss	(d)	25,617	13,449	18,341	50,465
		<u>1,044,730</u>	<u>1,230,416</u>	<u>2,305,689</u>	<u>2,657,819</u>

Bank

	Notes	December 31,			June 30,
		2003	2004	2005	2006
Receivables	(a)	397,996	397,996	1,074,461	1,078,786
Held-to-maturity debt securities	(b)	359,558	422,859	887,677	1,085,241
Available-for-sale investments	(c)	254,474	386,683	319,111	440,622
Investments at fair value through profit or loss	(d)	25,617	13,449	16,582	48,136
		<u>1,037,645</u>	<u>1,220,987</u>	<u>2,297,831</u>	<u>2,652,785</u>

(a) Receivables

Receivables are unlisted and stated at amortised cost and comprise the following:

Group and Bank

	December 31,			June 30,
	2003	2004	2005	2006
Huarong bonds (i)	312,996	312,996	312,996	312,996
Special government bond (ii)	85,000	85,000	85,000	85,000
MOF receivable (iii)	—	—	246,000	246,000
Special PBOC bills (iv)	—	—	430,465	434,790
	<u>397,996</u>	<u>397,996</u>	<u>1,074,461</u>	<u>1,078,786</u>

(i) Huarong bonds are a series of long term bonds with an aggregate amount of RMB312,996 million bilaterally issued to ICBC by Huarong in 2000 and 2001. The funds raised were used to purchase non-performing loans of ICBC. The bonds are non-transferable, have a tenure of 10 years and bear a fixed interest rate of 2.25% per annum. Further details are set out in note 1(b)(v).

(ii) The special government bond represents a non-negotiable bond with a nominal value of RMB85,000 million issued by the MOF to ICBC in 1998. The bond will mature in 2028 and bore interest at a fixed rate of 7.2% per annum originally. ICBC was required to pay an amount

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****17. INVESTMENT SECURITIES (continued)****(a) Receivables (continued)**

to the Government that equals the interest income arising from the bond on an annual basis. Such interest income and expenses were offset and no cash settlement was involved. As part of the Restructuring, with effect from December 1, 2005, the interest rate of the bond was revised to a fixed rate of 2.25% per annum, and the aforesaid expenses ceased to be required accordingly.

(iii) Further details of the MOF receivable are set out in notes 1(b)(ii) to the Financial Information.

(iv) Special PBOC bills consist of:

- A non-transferable bill with a nominal value of RMB430,465 million issued by the PBOC in June 2005, details of which are set out in note 1(b)(iii) to the Financial Information.
- A non-transferable bill with a nominal value of RMB4,325 million issued by the PBOC in June 2006 for settlement of the amounts due from Huarong. The bill will mature in June 2011 and bears a fixed interest rate of 1.89% per annum. The PBOC has the right to early redeem the bill prior to the maturity date.

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****17. INVESTMENT SECURITIES (continued)****(b) Held-to-maturity debt securities**

Held-to-maturity debt securities are stated at amortised cost and comprise the following:

Group

	December 31,			June 30,
	2003	2004	2005	2006
Governments and central banks	175,615	203,386	592,134	726,827
Policy banks	165,938	200,512	246,306	287,662
Public sector entities	10	45	5,223	4,912
Banks and other financial institutions	10,690	8,582	29,361	50,403
Corporate entities	11,574	15,868	9,917	9,785
	<u>363,827</u>	<u>428,393</u>	<u>882,941</u>	<u>1,079,589</u>
Less: Allowance for impairment losses	—	(164)	(237)	(223)
	<u>363,827</u>	<u>428,229</u>	<u>882,704</u>	<u>1,079,366</u>
Debt securities analysed into:				
Listed in Hong Kong	1,168	1,224	1,560	629
Listed outside Hong Kong	31,066	49,698	88,082	110,697
Unlisted	331,593	377,307	793,062	968,040
	<u>363,827</u>	<u>428,229</u>	<u>882,704</u>	<u>1,079,366</u>
Market value of listed securities	<u>32,281</u>	<u>50,887</u>	<u>91,044</u>	<u>112,547</u>

Bank

	December 31,			June 30,
	2003	2004	2005	2006
Governments and central banks	175,389	201,430	591,942	725,592
Policy banks	165,938	200,512	246,306	287,662
Public sector entities	10	45	4,959	4,691
Banks and other financial institutions	11,691	12,656	35,714	58,666
Corporate entities	6,530	8,380	8,993	8,853
	<u>359,558</u>	<u>423,023</u>	<u>887,914</u>	<u>1,085,464</u>
Less: Allowance for impairment losses	—	(164)	(237)	(223)
	<u>359,558</u>	<u>422,859</u>	<u>887,677</u>	<u>1,085,241</u>
Debt securities analysed into:				
Listed in Hong Kong	161	34	1,404	629
Listed outside Hong Kong	27,299	45,121	87,062	109,918
Unlisted	332,098	377,704	799,211	974,694
	<u>359,558</u>	<u>422,859</u>	<u>887,677</u>	<u>1,085,241</u>
Market value of listed securities	<u>27,313</u>	<u>44,932</u>	<u>90,168</u>	<u>111,769</u>

(I) FINANCIAL INFORMATION (continued)

Notes to the Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

17. INVESTMENT SECURITIES (continued)

*(c) Available-for-sale investments**Group*

	December 31,			June 30,
	2003	2004	2005	2006
Debt securities, at fair value:				
Governments and central banks	175,745	295,355	212,055	333,548
Policy banks	40,964	59,022	55,765	48,497
Public sector entities	609	1,729	588	1,727
Banks and other financial institutions	23,344	23,909	45,922	50,572
Corporate entities	6,162	2,750	10,549	9,473
	<u>246,824</u>	<u>382,765</u>	<u>324,879</u>	<u>443,817</u>
Equity investments:				
At fair value	1,257	1,256	761	757
At cost (i):				
Debt for equity swaps (ii)	10,680	7,680	4,236	4,236
Others	3,545	3,098	347	447
	<u>15,482</u>	<u>12,034</u>	<u>5,344</u>	<u>5,440</u>
Less: Allowance for impairment losses of equity investments	<u>(5,016)</u>	<u>(4,057)</u>	<u>(40)</u>	<u>(55)</u>
	<u>10,466</u>	<u>7,977</u>	<u>5,304</u>	<u>5,385</u>
	<u>257,290</u>	<u>390,742</u>	<u>330,183</u>	<u>449,202</u>
Debt securities analysed into:				
Listed in Hong Kong	481	474	2,360	3,122
Listed outside Hong Kong	17,741	23,057	22,563	33,293
Unlisted	<u>228,602</u>	<u>359,234</u>	<u>299,956</u>	<u>407,402</u>
	<u>246,824</u>	<u>382,765</u>	<u>324,879</u>	<u>443,817</u>
Equity investments analysed into:				
Listed in Hong Kong	477	419	437	479
Unlisted	<u>15,005</u>	<u>11,615</u>	<u>4,907</u>	<u>4,961</u>
	<u>15,482</u>	<u>12,034</u>	<u>5,344</u>	<u>5,440</u>
Market value of listed securities:				
Debt securities	18,222	23,531	24,923	36,415
Equity investments	477	419	437	479
	<u>18,699</u>	<u>23,950</u>	<u>25,360</u>	<u>36,894</u>

(I) FINANCIAL INFORMATION (continued)

Notes to the Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

17. INVESTMENT SECURITIES (continued)

*(c) Available-for-sale investments (continued)**Bank*

	December 31,			June 30,
	2003	2004	2005	2006
Debt securities, at fair value:				
Governments and central banks	175,745	295,355	212,055	333,057
Policy banks	40,964	59,022	55,765	48,497
Public sector entities	609	1,729	—	1,161
Banks and other financial institutions	21,946	21,312	42,560	48,765
Corporate entities	5,364	1,844	4,117	4,495
	<u>244,628</u>	<u>379,262</u>	<u>314,497</u>	<u>435,975</u>
Equity investments:				
At fair value	727	827	181	148
At cost (i):				
Debt for equity swaps (ii)	10,680	7,680	4,236	4,236
Others	3,455	2,971	237	318
	<u>14,862</u>	<u>11,478</u>	<u>4,654</u>	<u>4,702</u>
Less: Allowance for impairment losses of equity investments	(5,016)	(4,057)	(40)	(55)
	<u>9,846</u>	<u>7,421</u>	<u>4,614</u>	<u>4,647</u>
	<u>254,474</u>	<u>386,683</u>	<u>319,111</u>	<u>440,622</u>
Debt securities analysed into:				
Listed in Hong Kong	327	191	1,745	2,116
Listed outside Hong Kong	17,028	21,328	17,541	28,278
Unlisted	227,273	357,743	295,211	405,581
	<u>244,628</u>	<u>379,262</u>	<u>314,497</u>	<u>435,975</u>
Equity investments analysed into:				
Listed in Hong Kong	5	4	4	4
Unlisted	14,857	11,474	4,650	4,698
	<u>14,862</u>	<u>11,478</u>	<u>4,654</u>	<u>4,702</u>
Market value of listed securities:				
Debt securities	17,355	21,519	19,286	30,394
Equity investments	5	4	4	4
	<u>17,360</u>	<u>21,523</u>	<u>19,290</u>	<u>30,398</u>

- (i) Certain available-for-sale unlisted equity investments which do not have any quoted market prices and whose fair values cannot be measured reliably are stated at cost less any impairment losses.
- (ii) Many state-owned banks obtained equity interests in certain enterprises in lieu of repayments of loans through debts-equity swap arrangements set by the PRC Government in 1999. The Bank in fact retains the risks and rewards of ownership and rights to dispose of these equity interests. By their nature, such equity interests are treated as “equity investments” of the Group.

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****17. INVESTMENT SECURITIES (continued)***(d) Investments at fair value through profit or loss*

Investments at fair value through profit or loss are stated at fair value and represent investments which are classified as held-for-trading, which comprise the following:

Group

	December 31,			June 30,
	2003	2004	2005	2006
Debt securities:				
Governments and central banks	13,367	12,113	11,467	16,071
Policy banks	11,794	1,336	4,279	13,588
Public sector entities	253	—	509	1,833
Banks and other financial institutions	203	—	1,259	3,057
Corporate entities	—	—	827	15,880
	25,617	13,449	18,341	50,429
Equity investments	—	—	—	36
	25,617	13,449	18,341	50,465
Analysed into:				
Listed in Hong Kong	253	164	90	507
Listed outside Hong Kong	2,855	198	1,379	1,231
Unlisted	22,509	13,087	16,872	48,727
	25,617	13,449	18,341	50,465

Bank

	December 31,			June 30,
	2003	2004	2005	2006
Debt securities:				
Governments and central banks	13,367	12,113	11,246	15,863
Policy banks	11,794	1,336	4,279	13,588
Public sector entities	253	—	300	1,619
Banks and other financial institutions	203	—	757	2,438
Corporate entities	—	—	—	14,628
	25,617	13,449	16,582	48,136
Analysed into:				
Listed in Hong Kong	253	164	—	—
Listed outside Hong Kong	2,855	198	370	173
Unlisted	22,509	13,087	16,212	47,963
	25,617	13,449	16,582	48,136

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****17. INVESTMENT SECURITIES (continued)***(e) Movements of allowance for impairment losses of held-to-maturity debt securities and available-for-sale equity investments during the Relevant Periods were as follows:***Group and Bank**

	<u>Held-to-maturity debt securities</u>	<u>Available-for- sale equity investments</u>	<u>Total</u>
At January 1, 2003	—	4,483	4,483
Charge for the year (note 9)	—	789	789
Disposals/write-offs	—	(256)	(256)
At December 31, 2003 and at January 1, 2004	—	5,016	5,016
Transfer in	164	—	164
Disposals/write-offs	—	(959)	(959)
At December 31, 2004 and at January 1, 2005	164	4,057	4,221
Charge for the year (note 9)	13	—	13
Transfer in	60	—	60
Disposals/write-offs	—	(4,017)	(4,017)
At December 31, 2005 and at January 1, 2006	237	40	277
Charge for the period (note 9)	—	15	15
Disposals	(14)	—	(14)
At June 30, 2006	<u>223</u>	<u>55</u>	<u>278</u>

18. INVESTMENTS IN SUBSIDIARIES**Bank**

	<u>December 31,</u>			<u>June 30,</u>
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Listed shares, at cost	4,946	4,935	5,649	5,554
Unlisted investments, at cost	<u>2,152</u>	<u>2,152</u>	<u>1,463</u>	<u>1,509</u>
	<u>7,098</u>	<u>7,087</u>	<u>7,112</u>	<u>7,063</u>
Market value of the Bank's investments in a subsidiary whose shares are listed in Hong Kong	<u>6,884</u>	<u>7,120</u>	<u>6,621</u>	<u>7,980</u>

Particulars of the principal subsidiaries of the Bank are set out in note 1(d) to the Financial Information.

Included in the Bank's balance sheet are balances with subsidiaries as follows:

	<u>December 31,</u>			<u>June 30,</u>
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Due from subsidiaries	23,005	18,656	22,286	14,346
Due to subsidiaries	(9,138)	(8,382)	(5,522)	(9,941)
Investments	<u>8,511</u>	<u>9,826</u>	<u>9,677</u>	<u>11,915</u>

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****18. INVESTMENTS IN SUBSIDIARIES (continued)**

The balances with subsidiaries included nostro accounts, placements with banks and other financial institutions, investment securities, other receivables, money market takings, deposits with banks and other financial institutions and repurchase agreements. These balances are of similar terms with those maintained with other customers of the Bank.

19. INVESTMENTS IN ASSOCIATES***Group***

	December 31,			June 30,
	2003	2004	2005	2006
Share of net assets	204	117	120	125
Goodwill on acquisition	70	—	—	—
	<u>274</u>	<u>117</u>	<u>120</u>	<u>125</u>

Bank

	December 31,			June 30,
	2003	2004	2005	2006
Unlisted investments, at cost	<u>83</u>	<u>74</u>	<u>74</u>	<u>74</u>

The financial information of the Group's associates extracted from their financial statements are summarised as follows:

	December 31,			June 30,
	2003	2004	2005	2006
Assets	1,236	1,265	1,920	2,297
Liabilities	(624)	(829)	(1,373)	(1,723)
Net assets	<u>612</u>	<u>436</u>	<u>547</u>	<u>574</u>

	For the year ended December 31,			Six months ended June 30,	
	2003	2004	2005	2005 (Unaudited)	2006
Revenue	638	99	123	59	89
Profits/(losses)	<u>(135)</u>	<u>17</u>	<u>25</u>	<u>5</u>	<u>21</u>

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****19. INVESTMENTS IN ASSOCIATES (continued)**

Particulars of the Group's associates are as follows:

Name	Percentage of ownership interest attributable to the Group as at				Place of incorporation/ registration	Principal activities
	December 31,		June 30,			
	2003	2004	2005	2006		
Directly held by the Bank						
Qingdao International Bank	50.00	27.69	20.83	20.83	Qingdao, the PRC	Commercial banking
Indirectly held by the Bank						
China Ping An Insurance (Hong Kong) Company Limited (i)	18.17	14.38	14.93	14.93	Hong Kong, the PRC	General insurance
The Tai Ping Insurance Company, Limited (ii)	18.09	N/A	N/A	N/A	Shenzhen, the PRC	General insurance

- (i) The shareholding of a 25% equity interest in this associate is held through a non-wholly-owned subsidiary, ICBC (Asia). Further details of the Bank's equity interests in ICBC (Asia) are set out in note 1(d). The percentage of ownership interest disclosed represented the effective percentage held by the Group.
- (ii) The shareholding of this associate was held through ICBC (Asia). The percentage of ownership interest disclosed represented the effective percentage held by the Group. In November 2004, the equity interests held by ICBC (Asia) were diluted from 24.9% to 12.45% and since then The Tai Ping Insurance Company, Limited has ceased to be an associate of the Group.

(I) FINANCIAL INFORMATION (continued)

Notes to the Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

20. PROPERTY AND EQUIPMENT

Group

	Properties and buildings	Construction in progress	Leasehold improvements	Office equipment and computers	Motor vehicles	Total
Cost or valuation:						
At January 1, 2003	75,198	4,283	1,156	23,301	6,331	110,269
Additions	2,319	1,705	231	4,079	397	8,731
Transfers	1,751	(2,519)	—	914	2	148
Disposals	(1,143)	(47)	(72)	(1,358)	(609)	(3,229)
At December 31, 2003 and at January 1, 2004	78,125	3,422	1,315	26,936	6,121	115,919
Additions	1,762	1,850	225	3,633	281	7,751
Acquisition of a subsidiary (note 37(a))	—	—	18	13	—	31
Transfers	1,454	(2,528)	—	990	10	(74)
Disposals	(1,541)	—	(99)	(1,757)	(541)	(3,938)
At December 31, 2004 and at January 1, 2005	79,800	2,744	1,459	29,815	5,871	119,689
Additions	2,784	2,067	861	3,008	152	8,872
Transfers	2,021	(1,955)	1	489	12	568
Revaluation surplus	19,677	61	—	2,131	828	22,697
Elimination of accumulated depreciation and impairment losses on valuation	(19,000)	(67)	—	(18,529)	(4,271)	(41,867)
Disposals	(6,998)	—	(788)	(2,494)	(685)	(10,965)
At December 31, 2005 and at January 1, 2006	78,284	2,850	1,533	14,420	1,907	98,994
Additions	218	765	110	426	26	1,545
Transfers	329	(500)	2	169	—	—
Disposals	(268)	(181)	(171)	(73)	(43)	(736)
At June 30, 2006	78,563	2,934	1,474	14,942	1,890	99,803
Accumulated depreciation and impairment:						
At January 1, 2003	15,832	70	529	11,146	4,072	31,649
Depreciation charge for the year	2,796	—	226	4,824	808	8,654
Impairment losses	100	—	—	—	—	100
Disposals	(324)	—	(65)	(1,303)	(559)	(2,251)
At December 31, 2003 and at January 1, 2004	18,404	70	690	14,667	4,321	38,152
Depreciation charge for the year	2,960	—	245	5,077	695	8,977
Disposals	(822)	—	(88)	(1,615)	(494)	(3,019)
At December 31, 2004 and at January 1, 2005	20,542	70	847	18,129	4,522	44,110
Depreciation charge for the year	3,455	—	399	5,211	787	9,852
Impairment losses	107	182	—	—	—	289
Elimination of accumulated depreciation and impairment losses on valuation	(19,000)	(67)	—	(18,529)	(4,271)	(41,867)
Disposals	(3,087)	—	(494)	(2,259)	(534)	(6,374)
At December 31, 2005 and at January 1, 2006	2,017	185	752	2,552	504	6,010
Depreciation charge for the period	1,811	—	108	2,758	376	5,053
Impairment losses	182	4	—	2	—	188
Disposals	(49)	—	(66)	(11)	(31)	(157)
At June 30, 2006	3,961	189	794	5,301	849	11,094
Net carrying amount:						
At December 31, 2003	59,721	3,352	625	12,269	1,800	77,767
At December 31, 2004	59,258	2,674	612	11,686	1,349	75,579
At December 31, 2005	76,267	2,665	781	11,868	1,403	92,984
At June 30, 2006	74,602	2,745	680	9,641	1,041	88,709

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****20. PROPERTY AND EQUIPMENT (continued)**

The Group's properties and buildings were held under the following lease terms:

	December 31,			June 30,
	2003	2004	2005	2006
Long term leases (over 50 years)				
—Held in the PRC (other than Hong Kong)	4,972	4,692	6,346	5,645
—Held in Hong Kong	348	235	189	86
—Held overseas	76	77	48	49
	<u>5,396</u>	<u>5,004</u>	<u>6,583</u>	<u>5,780</u>
Medium term leases (10 to 50 years)				
—Held in the PRC (other than Hong Kong)	51,888	51,480	67,210	66,772
—Held in Hong Kong	265	223	285	281
	<u>52,153</u>	<u>51,703</u>	<u>67,495</u>	<u>67,053</u>
Short term leases (less than 10 years)				
—Held in the PRC (other than Hong Kong)	2,172	2,551	2,189	1,769
	<u>59,721</u>	<u>59,258</u>	<u>76,267</u>	<u>74,602</u>

(I) FINANCIAL INFORMATION (continued)

Notes to the Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

20. PROPERTY AND EQUIPMENT (continued)

Bank

	Properties and buildings	Construction in progress	Leasehold improvements	Office equipment and computers	Motor vehicles	Total
Cost or valuation:						
At January 1, 2003	74,309	4,283	1,072	23,125	6,323	109,112
Additions	2,319	1,705	226	4,063	396	8,709
Transfers	1,751	(2,519)	—	913	2	147
Disposals	(1,021)	(47)	(68)	(1,358)	(609)	(3,103)
At December 31, 2003 and at January 1, 2004	77,358	3,422	1,230	26,743	6,112	114,865
Additions	1,762	1,850	205	3,538	281	7,636
Transfers	1,454	(2,528)	—	990	10	(74)
Disposals	(1,175)	—	(99)	(1,757)	(541)	(3,572)
At December 31, 2004 and at January 1, 2005	79,399	2,744	1,336	29,514	5,862	118,855
Additions	2,783	2,067	814	2,970	150	8,784
Transfers	2,021	(1,955)	1	489	12	568
Revaluation surplus	19,677	61	—	2,131	828	22,697
Elimination of accumulated depreciation and impairment losses on valuation	(19,000)	(67)	—	(18,529)	(4,271)	(41,867)
Disposals	(6,870)	—	(774)	(2,493)	(685)	(10,822)
At December 31, 2005 and at January 1, 2006	78,010	2,850	1,377	14,082	1,896	98,215
Additions	218	765	98	407	21	1,509
Transfers	329	(500)	2	169	—	—
Disposals	(264)	(181)	(166)	(66)	(42)	(719)
At June 30, 2006	78,293	2,934	1,311	14,592	1,875	99,005
Accumulated depreciation and impairment:						
At January 1, 2003	15,730	70	471	11,040	4,070	31,381
Depreciation charge for the year	2,621	—	221	4,799	806	8,447
Impairment losses	100	—	—	—	—	100
Disposals	(324)	—	(63)	(1,301)	(559)	(2,247)
At December 31, 2003 and at January 1, 2004	18,127	70	629	14,538	4,317	37,681
Depreciation charge for the year	2,890	—	213	4,970	694	8,767
Disposals	(520)	—	(88)	(1,615)	(494)	(2,717)
At December 31, 2004 and at January 1, 2005	20,497	70	754	17,893	4,517	43,731
Depreciation charge for the year	3,450	—	386	5,179	786	9,801
Impairment losses	107	182	—	—	—	289
Elimination of accumulated depreciation and impairment losses on valuation	(19,000)	(67)	—	(18,529)	(4,271)	(41,867)
Disposals	(3,086)	—	(482)	(2,252)	(534)	(6,354)
At December 31, 2005 and at January 1, 2006	1,968	185	658	2,291	498	5,600
Depreciation charge for the period	1,806	—	101	2,744	376	5,027
Impairment losses	182	4	—	2	—	188
Disposals	(48)	—	(65)	(9)	(31)	(153)
At June 30, 2006	3,908	189	694	5,028	843	10,662
Net carrying amount:						
At December 31, 2003	59,231	3,352	601	12,205	1,795	77,184
At December 31, 2004	58,902	2,674	582	11,621	1,345	75,124
At December 31, 2005	76,042	2,665	719	11,791	1,398	92,615
At June 30, 2006	74,385	2,745	617	9,564	1,032	88,343

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****20. PROPERTY AND EQUIPMENT (continued)**

The Bank's properties and buildings were held under the following lease terms:

	December 31,			June 30,
	2003	2004	2005	2006
Long term leases (over 50 years)				
—Held in the PRC (other than Hong Kong)	4,924	4,653	6,341	5,629
—Held overseas	73	75	47	49
	4,997	4,728	6,388	5,678
Medium term leases (10 to 50 years)				
—Held in the PRC (other than Hong Kong)	51,886	51,463	67,199	66,677
—Held in Hong Kong	194	175	267	263
	52,080	51,638	67,466	66,940
Short term leases (less than 10 years)				
—Held in the PRC (other than Hong Kong)	2,154	2,536	2,188	1,767
	59,231	58,902	76,042	74,385

In accordance with the relevant rules and regulations, subsequent to the transformation of ICBC into a joint-stock company, the title of properties and buildings previously held under the name of ICBC is to be transferred to the Bank. The aforesaid re-registration process for certain properties and buildings has not yet been completed up to the date of this report.

ICBC engaged China United Assets Appraisal Co., Ltd., an independent firm of qualified asset appraisers in the PRC, to value its property and equipment (other than leasehold improvements) on a depreciated replacement cost or a comparable market basis as appropriate. The date of valuation was June 30, 2005. The valuation was made for the purpose of the Restructuring and to comply with the relevant rules and regulations. The surplus of RMB22,697 million arising from the above valuation has been credited to the asset revaluation reserve and then capitalised as share capital of the Bank upon its incorporation.

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****20. PROPERTY AND EQUIPMENT (continued)**

Had the property and equipment (other than leasehold improvements) been measured using the cost model as at December 31, 2005 and June 30, 2006, the carrying amounts would have been as follows:

Group

<u>December 31, 2005</u>	<u>Cost</u>	<u>Accumulated depreciation and impairment</u>	<u>Net carrying amount</u>
Properties and buildings	77,607	(20,957)	56,650
Construction in progress	2,856	(252)	2,604
Office equipment and computers	30,818	(20,409)	10,409
Motor vehicles	5,350	(4,416)	934
	<u>116,631</u>	<u>(46,034)</u>	<u>70,597</u>
<u>June 30, 2006</u>			
Properties and buildings	77,886	(22,611)	55,275
Construction in progress	2,940	(256)	2,684
Office equipment and computers	31,340	(22,494)	8,846
Motor vehicles	5,333	(4,433)	900
	<u>117,499</u>	<u>(49,794)</u>	<u>67,705</u>

Bank

<u>December 31, 2005</u>	<u>Cost</u>	<u>Accumulated depreciation and impairment</u>	<u>Net carrying amount</u>
Properties and buildings	77,333	(20,908)	56,425
Construction in progress	2,856	(252)	2,604
Office equipment and computers	30,480	(20,148)	10,332
Motor vehicles	5,339	(4,410)	929
	<u>116,008</u>	<u>(45,718)</u>	<u>70,290</u>
<u>June 30, 2006</u>			
Properties and buildings	77,616	(22,558)	55,058
Construction in progress	2,940	(256)	2,684
Office equipment and computers	30,990	(22,221)	8,769
Motor vehicles	5,318	(4,424)	894
	<u>116,864</u>	<u>(49,459)</u>	<u>67,405</u>

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****21. DEFERRED INCOME TAX**

Deferred income tax assets and liabilities as at the balance sheet date are related to the following:

Group

	December 31,			June 30,
	2003	2004	2005	2006
Provisions for impairment losses on loans and advances and other assets	21,269	5,206	928	1,221
Provision for overdue interest receivable	3,995	954	—	—
Provision for housing reform losses	3,442	2,548	—	—
Amortisation and interest recognition for short term debt securities	(342)	(1,027)	(541)	—
Revaluation of available-for-sale investments	(2,161)	(949)	(1,001)	(595)
Changes in fair value of financial instruments at fair value through profit or loss	369	395	(1,254)	(1,658)
Others	809	1,678	450	762
Net deferred income tax assets/(liabilities)	<u>27,381</u>	<u>8,805</u>	<u>(1,418)</u>	<u>(270)</u>

Bank

	December 31,			June 30,
	2003	2004	2005	2006
Provisions for impairment losses on loans and advances and other assets	21,269	5,206	928	1,221
Provision for overdue interest receivable	3,995	954	—	—
Provision for housing reform losses	3,442	2,548	—	—
Amortisation and interest recognition for short term debt securities	(342)	(1,027)	(541)	—
Revaluation of available-for-sale investments	(2,161)	(949)	(1,001)	(595)
Changes in fair value of financial instruments at fair value through profit or loss	318	347	(1,254)	(1,635)
Others	799	1,648	450	723
Net deferred income tax assets/(liabilities)	<u>27,320</u>	<u>8,727</u>	<u>(1,418)</u>	<u>(286)</u>

Deferred income tax debited/(credited) to equity during the year/period is as follows:

Group and Bank

	Year ended December 31,			Six months ended June 30,	
	2003	2004	2005	2005	2006
Relating to the revaluation of available-for-sale investments	<u>(921)</u>	<u>(1,212)</u>	<u>52</u>	<u>950</u>	<u>(406)</u>

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****22. OTHER ASSETS***Group*

	December 31,			June 30,
	2003	2004	2005	2006
Interest receivable	8,233	9,289	24,993	29,688
Reposessed assets	15,029	13,373	6,395	5,828
Positive fair value of financial derivatives (note 29)	1,623	2,129	9,957	11,260
Land use rights (i)	—	—	19,657	19,408
Settlement and clearing accounts	7,470	7,907	8,115	21,932
Others	12,898	12,708	7,090	9,570
	<u>45,253</u>	<u>45,406</u>	<u>76,207</u>	<u>97,686</u>

Bank

	December 31,			June 30,
	2003	2004	2005	2006
Interest receivable	7,862	8,668	24,295	29,176
Reposessed assets	15,029	13,373	6,395	5,828
Positive fair value of financial derivatives (note 29)	1,196	1,673	9,154	10,352
Land use rights (i)	—	—	19,657	19,408
Settlement and clearing accounts	6,949	7,482	7,679	21,448
Others	11,440	10,900	6,184	8,160
	<u>42,476</u>	<u>42,096</u>	<u>73,364</u>	<u>94,372</u>

- (i) Land use rights, which are held under medium term leases and are situated in Mainland China, represent the amount of land use rights injected by the Government through capital contribution (note 1(b)(iv)) less accumulated amortisation.

Reposessed assets are analysed as follows:

Group and Bank

	December 31,			June 30,
	2003	2004	2005	2006
Cost	33,014	31,036	8,942	8,513
Allowance for impairment losses	(17,985)	(17,663)	(2,547)	(2,685)
	<u>15,029</u>	<u>13,373</u>	<u>6,395</u>	<u>5,828</u>

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****22. OTHER ASSETS (continued)**

The movements of allowance for impairment losses of repossessed assets during the Relevant Periods were as follows:

Group and Bank

	Year ended December 31,			Six months ended June 30,
	2003	2004	2005	2006
At beginning of the year/period	19,518	17,985	17,663	2,547
Charge for the year/period (note 9)	484	348	101	399
Transfer in	2,348	5,503	2,430	1,857
Disposals/write-offs	(4,365)	(6,173)	(17,647)	(2,118)
At end of the year/period	<u>17,985</u>	<u>17,663</u>	<u>2,547</u>	<u>2,685</u>

23. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS***Group***

	December 31,			June 30,
	2003	2004	2005	2006
Money market takings	25,200	24,988	31,360	35,691
Deposits	193,809	180,707	201,550	331,527
	<u>219,009</u>	<u>205,695</u>	<u>232,910</u>	<u>367,218</u>

Bank

	December 31,			June 30,
	2003	2004	2005	2006
Money market takings	31,313	28,715	29,709	39,928
Deposits	194,315	181,120	201,725	332,276
	<u>225,628</u>	<u>209,835</u>	<u>231,434</u>	<u>372,204</u>

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****23. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS (continued)**

Analysed by legal form of counterparty

Group

	December 31,			June 30,
	2003	2004	2005	2006
Policy banks	661	461	503	464
State-owned banks	18,532	6,774	12,493	8,438
Joint-stock banks	13,808	16,044	12,428	19,731
Others (i)	186,008	182,416	207,486	338,585
	<u>219,009</u>	<u>205,695</u>	<u>232,910</u>	<u>367,218</u>

Bank

	December 31,			June 30,
	2003	2004	2005	2006
Policy banks	661	461	503	464
State-owned banks	18,498	6,734	10,666	7,187
Joint-stock banks	13,438	15,701	10,699	19,319
Others (i)	193,031	186,939	209,566	345,234
	<u>225,628</u>	<u>209,835</u>	<u>231,434</u>	<u>372,204</u>

(i) Balances included amounts due to banks incorporated outside Mainland China and amounts due to other financial institutions.

24. REPURCHASE AGREEMENTS**Group**

	December 31,			June 30,
	2003	2004	2005	2006
Analysed by counterparty:				
Banks	16,253	26,039	26,913	7,779
Other financial institutions	—	300	5,388	3,843
	<u>16,253</u>	<u>26,339</u>	<u>32,301</u>	<u>11,622</u>
Analysed by collateral:				
Securities	1,003	25,000	28,556	8,296
Bills	13,720	873	790	—
Loans	1,530	466	2,955	3,326
	<u>16,253</u>	<u>26,339</u>	<u>32,301</u>	<u>11,622</u>

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****24. REPURCHASE AGREEMENTS (continued)***Bank*

	December 31,			June 30,
	2003	2004	2005	2006
Analysed by counterparty:				
Banks	16,253	26,867	27,721	8,389
Other financial institutions	—	300	5,388	3,843
	16,253	27,167	33,109	12,232
Analysed by collateral:				
Securities	1,003	25,000	28,556	8,296
Bills	13,720	873	790	—
Loans	1,530	1,294	3,763	3,936
	16,253	27,167	33,109	12,232

25. DUE TO CUSTOMERS*Group*

	December 31,			June 30,
	2003	2004	2005	2006
Demand deposits				
Corporate customers	1,538,964	1,660,739	1,787,336	1,867,705
Personal customers	780,339	882,431	1,012,876	1,053,394
Others	70,988	68,553	77,944	53,257
Time deposits				
Corporate customers	504,705	612,341	754,968	909,401
Personal customers	1,811,865	1,952,218	2,103,742	2,235,281
	4,706,861	5,176,282	5,736,866	6,119,038

The Group's amounts due to customers included structured deposits amounting to RMB7,316 million, RMB26,301 million, RMB33,590 million and RMB32,869 million as at December 31, 2003, 2004, 2005 and June 30, 2006, respectively, which are financial liabilities designated at fair value through profit or loss upon initial recognition. The differences between the fair value and the amount that the Group would be contractually required to pay at maturity to the holders of these financial liabilities amounted to RMB30 million, RMB200 million, RMB629 million and RMB694 million as at December 31, 2003, 2004, 2005 and June 30, 2006, respectively. The amount of changes in the fair value of the financial liabilities that is attributable to changes in credit risk is considered not significant during the Relevant Periods and cumulatively at the end of each of the Relevant Periods.

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****25. DUE TO CUSTOMERS (continued)***Bank*

	December 31,			June 30,
	2003	2004	2005	2006
Demand deposits				
Corporate customers	1,533,595	1,655,994	1,779,074	1,854,530
Personal customers	775,395	870,966	1,003,655	1,048,286
Others	70,987	68,544	77,941	53,253
Time deposits				
Corporate customers	481,881	579,755	707,981	848,507
Personal customers	1,806,159	1,939,938	2,103,203	2,231,743
	4,668,017	5,115,197	5,671,854	6,036,319

The Bank's amounts due to customers included structured deposits amounting to RMB7,316 million, RMB26,301 million, RMB33,103 million and RMB32,367 million as at December 31, 2003, 2004, 2005 and June 30, 2006, respectively, which are financial liabilities designated at fair value through profit or loss upon initial recognition. The differences between the fair value and the amount that the Bank would be contractually required to pay at maturity to the holders of these financial liabilities amounted to RMB30 million, RMB200 million, RMB611 million and RMB671 million as at December 31, 2003, 2004, 2005 and June 30, 2006, respectively. The amount of changes in the fair value of the financial liabilities that is attributable to changes in credit risk is considered not significant during the Relevant Periods and cumulatively at the end of each of the Relevant Periods.

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****26. DEBT ISSUED***Group*

	Notes	December 31,			June 30,
		2003	2004	2005	2006
Notes payable	(a)	—	3,294	3,076	2,987
Subordinated bonds issued	(b)	—	—	35,000	35,000
		—	3,294	38,076	37,987

Bank

	Notes	December 31,			June 30,
		2003	2004	2005	2006
Subordinated bonds issued	(b)	—	—	35,000	35,000

Notes:

- (a) In September 2004, ICBCA (C.I.) Limited, an indirectly-held subsidiary of the Bank, issued notes with an aggregate principal amount of US\$400 million, at a coupon rate of 4.125% per annum and maturing on September 16, 2009. The notes have been designated as liabilities at fair value through profit or loss upon initial recognition. The differences between the fair value and the amount that the Group would be contractually required to pay at maturity to the holders of these notes amounted to RMB17 million, RMB128 million and RMB153 million as at December 31, 2004 and 2005 and June 30, 2006, respectively. The amount of changes in the fair value of the financial liabilities that is attributable to changes in credit risk is considered not significant during the Relevant Periods and cumulatively at the end of each of the Relevant Periods.
- (b) As approved by the PBOC and the CBRC, the Bank issued callable subordinated bonds of RMB35,000 million through open market bidding in 2005. These subordinated bonds included:
- 10-year fixed rate subordinated bonds in the amount of RMB13,000 million in aggregate maturing in 2015, bearing a coupon rate of 3.11% per annum. The Bank has the option to redeem all or part of the bonds at face value on August 29, 2010. If the Bank does not exercise this option, the annual coupon rate will increase by 3% thereafter.
 - 15-year fixed rate subordinated bonds in the amount of RMB13,000 million in aggregate maturing in 2020, bearing a coupon rate of 3.77% per annum. The Bank has the option to redeem all or part of the bonds at face value on September 6, 2015. If the Bank does not exercise this option, the annual coupon rate will increase by 3% thereafter.
 - 10-year floating rate subordinated bonds in the amount of RMB9,000 million in aggregate maturing in 2015, bearing a coupon rate which is the specific “base rate” plus an interest margin of 1.05% per annum. The base rate is determined based on the weighted average of PRC inter-bank money market 7-day repo rates. The Bank has the option to redeem all or part of the bonds at face value on September 14, 2010. If the Bank does not exercise this option, the interest margin of the bonds will increase by 1% thereafter.

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****27. OTHER LIABILITIES***Group*

	December 31,			June 30,
	2003	2004	2005	2006
Interest payable	32,392	34,342	38,177	45,536
Supplementary retirement benefits	31,977	27,261	29,921	29,269
Settlement and clearing accounts	19,466	23,462	24,276	40,143
Salaries and welfare payable	2,970	3,637	5,126	5,675
Sundry tax payables	3,167	3,626	4,595	4,288
Bank drafts	2,956	4,545	4,026	7,445
Negative fair value of financial derivatives (note 29)	2,798	3,556	3,530	4,067
Payables for bonds purchased	4,000	16,980	2,346	9,605
Allowance for litigation losses (note 33(a))	713	745	813	858
Dividend Payable	—	—	—	3,537
Others (i)	17,680	12,731	21,529	18,799
	<u>118,119</u>	<u>130,885</u>	<u>134,339</u>	<u>169,222</u>

Bank

	December 31,			June 30,
	2003	2004	2005	2006
Interest payable	32,208	34,032	37,610	45,294
Supplementary retirement benefits	31,977	27,261	29,921	29,269
Settlement and clearing accounts	19,460	23,457	24,014	39,393
Salaries and welfare payable	2,957	3,468	5,049	5,615
Sundry tax payables	3,162	3,620	4,592	4,285
Bank drafts	2,952	4,540	3,989	7,411
Negative fair value of financial derivatives (note 29)	2,222	2,942	2,729	3,040
Payables for bonds purchased	4,000	16,980	2,346	9,605
Allowance for litigation losses (note 33(a))	713	745	813	858
Dividend Payable	—	—	—	3,537
Others (i)	16,755	11,630	21,470	18,444
	<u>116,406</u>	<u>128,675</u>	<u>132,533</u>	<u>166,751</u>

- (i) Balance as at December 31, 2005 included an amount payable to the MOF of RMB8,028 million arising from the Restructuring of the Bank (note 1(b)(viii)). The amount was capitalised as equity in June 2006 (note 28(a)).

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****27. OTHER LIABILITIES (continued)**

The Group provides supplementary retirement benefits, which include supplementary pension and supplementary medical benefits, for its domestic retirees who retired before June 30, 2005. The amounts recognised in the consolidated balance sheets represent the present value of unfunded obligations. The Group's obligations in respect of the supplementary retirement benefits at the balance sheet dates were computed by an independent actuary, Towers, Perrin, Forster & Crosby, Inc., Hong Kong, whose actuaries are members of the Society of Actuaries of the United States of America, using the projected unit credit actuarial cost method. Actuarial gains or losses are recognised in the income statement when incurred. The components of net benefit expense recognised in the consolidated income statements and the amounts recognised in the consolidated balance sheets are summarised below.

*(i) Amount recognised at each balance sheet date:***Group and Bank**

	December 31,			June 30,
	2003	2004	2005	2006
Unfunded liabilities	<u>31,977</u>	<u>27,261</u>	<u>29,921</u>	<u>29,269</u>

*(ii) Movements of net benefit liabilities recognised in the balance sheets were as follows:***Group and Bank**

	Year ended December 31,			Six months ended June 30,
	2003	2004	2005	2006
Net liabilities at beginning of the year/period	33,772	31,977	27,261	29,921
Benefit paid during the year/period	(1,988)	(2,039)	(2,110)	(1,041)
Net expense /(income) recognised in the consolidated income statements (note 6)	<u>193</u>	<u>(2,677)</u>	<u>4,770</u>	<u>389</u>
Net liabilities at end of the year/period	<u>31,977</u>	<u>27,261</u>	<u>29,921</u>	<u>29,269</u>

*(iii) Net expenses/(income) recognised in the consolidated income statements:***Group**

	Year ended December 31,			Six months ended June 30,	
	2003	2004	2005	2005 (Unaudited)	2006
Interest cost recognised during the year/period	1,066	1,084	1,245	622	505
Actuarial losses/(gains) recognised during the year/period	<u>(873)</u>	<u>(3,761)</u>	<u>3,525</u>	<u>2,365</u>	<u>(116)</u>
Net expenses /(income) recognised in the consolidated income statements (note 6)	<u>193</u>	<u>(2,677)</u>	<u>4,770</u>	<u>2,987</u>	<u>389</u>

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****27. OTHER LIABILITIES (continued)***(iv) Principal actuarial assumptions****Group and Bank***

	December 31,			June 30,
	2003	2004	2005	2006
Discount rate	3.50%	4.75%	3.50%	3.50%
Healthcare cost increase rate	8.00%	8.00%	8.00%	8.00%
Expected annual future benefit increase for beneficiaries of deceased employees	4.50%	4.50%	4.50%	4.50%
Average expected future lifetime of current retirees	<u>16.0 years</u>	<u>16.0 years</u>	<u>15.4 years</u>	<u>15.1 years</u>

28. CAPITAL AND RESERVES***(a) Issued share capital/paid-up capital***

On October 28, 2005, with the approval of the State Council, ICBC was restructured and incorporated as a joint-stock limited company with a registered capital of RMB248,000 million divided into 248,000 million shares with a par value of RMB1 each, and accordingly issued 124,000 million shares each to the MOF and Huijin, respectively.

On April 28, 2006, Goldman Sachs, Dresdner Bank Luxembourg S.A. and American Express Company subscribed for 16,476 million shares, 6,433 million shares and 1,276 million shares in the Bank for cash consideration of US\$2,582 million, Euro825 million and US\$200 million, respectively.

On June 29, 2006, the National Council for Social Security Fund subscribed for 14,324 million shares for a consideration of RMB18,028 million, of which 7,945 million shares were paid by cash and the remaining 6,379 million shares were settled by capitalising a payable balance of RMB8,028 million of the Bank (note 27).

Following the above share subscriptions, the Bank's registered capital increased from RMB248,000 million to RMB286,509 million, divided into 286,509 million of RMB1 each. The premium of consideration over the increase in registered capital was credited to the capital reserve (note 28(b)).

(b) Capital reserve

Pursuant to the Restructuring, the paid-up capital, reserves and accumulated losses of ICBC, as determined under the generally accepted accounting principles in the PRC, were converted into the Bank's issued share capital upon its incorporation as described in notes 1(b)(viii) and 28(a) to the Financial Information. In the preparation of the Financial Information, the paid-up capital and all the then existing reserves and accumulated losses as determined under IFRS were accordingly eliminated, with the resulting difference dealt with in the capital reserve. Increase in capital reserve during the six months ended June 30, 2006 represented the premium of shares newly issued as described in note 28(a) above.

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****28. CAPITAL AND RESERVES (continued)***(c) Surplus reserves*

Surplus reserves consist of statutory surplus reserve and discretionary surplus reserve.

(i) Statutory surplus reserve

The Bank is required to appropriate 10% of its profit after incorporating as a joint-stock limited company, determined under the generally accepted accounting principles in the PRC, to the statutory surplus reserve until the reserve balance reaches 50% of its registered capital.

Subject to the approval of shareholders, statutory surplus reserve may be used to offset accumulated losses, if any, and may also be converted into capital, provided that the balance of statutory surplus reserve after such capitalisation is not less than 25% of the registered capital.

(ii) Discretionary surplus reserve

After making the appropriation to the statutory reserve, the Bank may also appropriate its profit to the discretionary surplus reserve upon the approval of the shareholders in general meetings. Subject to the approval of the shareholders, discretionary surplus reserve may be used to offset accumulated losses, if any, and may be converted into capital.

(d) Other reserves

The Bank is required to maintain a general reserve within equity, through the appropriation of profit, which should not be less than 1% of the year end balance of its risk-bearing assets. As allowed by the MOF, the reserve is to be appropriated over a period of not more than five years, beginning in 2005.

Asset revaluation reserve records the revaluation surplus of property and equipment.

Investment revaluation reserve records the fair value changes of available-for-sale investments.

Foreign currency translation reserve is used to record exchange differences arising from the translation of financial statements of the subsidiaries and branches incorporated outside Mainland China.

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****28. CAPITAL AND RESERVES (continued)***(e) Distributable profit*

The Bank's distributable profit is based on the lower of after-tax profit after appropriation to statutory surplus reserve and general reserve as determined under the generally accepted accounting principles in the PRC and IFRSs following the Restructuring of the Bank into a joint-stock limited company on October 28, 2005. The amount that the Bank's subsidiaries can legally distribute by way of a dividend is determined by reference to their profits as reflected in their financial statements prepared in accordance with the accounting regulations and principles promulgated by local regulatory bodies of respective countries/regions. These profits may differ from those dealt with in the Financial Information, which is prepared in accordance with IFRSs.

The movements in reserves and retained profits/(accumulated losses) of the Bank during the Relevant Periods are set out below:

	Reserves						Total	Accumulated losses
	Capital reserve	Surplus reserves	General reserve	Asset revaluation reserve	Investment revaluation reserve	Foreign currency translation reserve		
Balance as at January 1, 2003	(2,415)	14,805	—	—	6,257	29	18,676	(740,618)
Profit for the year	—	—	—	—	—	—	—	22,500
Net change in the fair value of available-for-sale investments	—	—	—	—	(1,557)	—	(1,557)	—
Reserve realised on disposal of available-for-sale investments	—	—	—	—	(313)	—	(313)	—
Foreign currency translation	—	—	—	—	—	123	123	—
Appropriation to surplus reserves	—	5	—	—	—	—	5	(5)
Balance as at December 31, 2003 and January 1, 2004	(2,415)	14,810	—	—	4,387	152	16,934	(718,123)
Profit for the year	—	—	—	—	—	—	—	30,581
Net change in the fair value of available-for-sale investments	—	—	—	—	(2,365)	—	(2,365)	—
Reserve realised on disposal of available-for-sale investments	—	—	—	—	(95)	—	(95)	—
Foreign currency translation	—	—	—	—	—	114	114	—
Appropriation to surplus reserves	—	8	—	—	—	—	8	(8)
Balance as at December 31, 2004 and January 1, 2005	(2,415)	14,818	—	—	1,927	266	14,596	(687,550)

(I) FINANCIAL INFORMATION (continued)

Notes to the Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

28. CAPITAL AND RESERVES (continued)

(e) Distributable profit (continued)

	Reserves						Total	Retained profits/ (accumulated losses)
	Capital reserve	Surplus reserves	General reserve	Asset revaluation reserve	Investment revaluation reserve	Foreign currency translation reserve		
Balance as at December 31, 2004 and January 1, 2005 ..	(2,415)	14,818	—	—	1,927	266	14,596	(687,550)
Profit for the year	—	—	—	—	—	—	—	37,004
Net change in the fair value of available-for-sale investments	—	—	—	—	3,453	—	3,453	—
Reserve realised on disposal of available-for-sale investments	—	—	—	—	480	—	480	—
Foreign currency translation ..	—	—	—	—	—	(83)	(83)	—
Asset revaluation surplus arising from the Restructuring	—	—	—	22,697	—	—	22,697	—
Restructuring: Capital injection (note 1(b)(iv))	19,906	—	—	—	—	—	19,906	—
Equity contribution arising from the disposal of impaired assets (notes 1(b)(ii) and (iii))	567,558	—	—	—	—	—	567,558	—
Elimination of capital and reserves with accumulated losses and transfer of paid-up capital, reserves and accumulated losses to share capital (notes 1(b)(vii) and (viii))	(587,063)	(14,818)	—	(22,697)	(3,828)	(321)	(628,727)	657,516
Appropriation to surplus reserves	—	375	—	—	—	—	375	(375)
Appropriation to general reserve	—	—	1,700	—	—	—	1,700	(1,700)
Balance as at December 31, 2005 and January 1, 2006 ..	(2,014)	375	1,700	—	2,032	(138)	1,955	4,895
Issuance of share capital	9,957	—	—	—	—	—	9,957	—
Profit for the period	—	—	—	—	—	—	—	25,194
Net change in the fair value of available-for-sale investments	—	—	—	—	(897)	—	(897)	—
Reserve realised on disposal of available-for-sale investments	—	—	—	—	59	—	59	—
Foreign currency translation ..	—	—	—	—	—	82	82	—
Appropriation to surplus reserves (note)	—	2,657	—	—	—	—	2,657	(2,657)
Appropriation to general reserve	—	—	5,302	—	—	—	5,302	(5,302)
Dividend—2005 final (note 11)	—	—	—	—	—	—	—	(3,537)
Balance as at June 30, 2006 ..	7,943	3,032	7,002	—	1,194	(56)	19,115	18,593

Note: Includes the appropriation made by an overseas branch in the amount of RMB6 million.

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****28. CAPITAL AND RESERVES (continued)***(e) Distributable profit (continued)*

The profit for the year attributable to equity holders of the Bank for the years ended December 31, 2003, 2004 and 2005 and for the six months ended June 30, 2005 (unaudited) and 2006 dealt with in the financial statements of the Bank, were RMB22,500 million, RMB30,581 million, RMB37,004 million, RMB24,853 million and RMB25,194 million, respectively.

29. DERIVATIVE FINANCIAL INSTRUMENTS

A derivative is a financial instrument, the value of which is derived from the value of another “underlying” financial instrument, an index or some other variables. Typically, an “underlying” financial instrument is a share, commodity or bond price, an index value or an exchange or interest rate. The Group uses such derivative financial instruments as forwards, futures, swaps and options.

The notional amount of a derivative represents the amount of underlying asset upon which the value of the derivative is based. It indicates the volume of business transacted by the Group but does not reflect the risk.

The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction.

(I) FINANCIAL INFORMATION (continued)

Notes to the Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

29. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The Group and the Bank had derivative financial instruments at each balance sheet date as follows:

Group

	December 31, 2003					Fair values	
	Notional amounts with remaining life of					Assets	Liabilities
	Within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Total		
Exchange rate contracts:							
Forward foreign exchange contracts	51,731	18,898	3,218	4,066	77,913	413	(324)
Currency option contracts purchased	524	83	—	—	607	1	(2)
	<u>52,255</u>	<u>18,981</u>	<u>3,218</u>	<u>4,066</u>	<u>78,520</u>	<u>414</u>	<u>(326)</u>
Interest rate contracts:							
Interest rate swap contracts	6,128	11,810	24,180	32,904	75,022	1,166	(2,402)
Cross-currency swap contracts	28	432	563	905	1,928	18	(46)
Interest rate option contracts purchased/written	1,096	1,854	1,673	18	4,641	24	(24)
	<u>7,252</u>	<u>14,096</u>	<u>26,416</u>	<u>33,827</u>	<u>81,591</u>	<u>1,208</u>	<u>(2,472)</u>
Other derivative contracts	—	107	—	—	107	1	—
	<u>59,507</u>	<u>33,184</u>	<u>29,634</u>	<u>37,893</u>	<u>160,218</u>	<u>1,623</u>	<u>(2,798)</u>

(I) FINANCIAL INFORMATION (continued)

Notes to the Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

29. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Bank

	December 31, 2003						Fair values	
	Notional amounts with remaining life of					Total	Assets	Liabilities
	Within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years				
Exchange rate contracts:								
Forward foreign exchange contracts ..	24,940	14,401	3,218	4,066	46,625	348	(264)	
Currency option contracts purchased	94	83	—	—	177	—	(1)	
	<u>25,034</u>	<u>14,484</u>	<u>3,218</u>	<u>4,066</u>	<u>46,802</u>	<u>348</u>	<u>(265)</u>	
Interest rate contracts:								
Interest rate swap contracts	6,128	4,840	18,754	27,642	57,364	823	(1,904)	
Cross-currency swap contracts	28	432	563	905	1,928	18	(46)	
Interest rate option contracts purchased/written	669	234	140	—	1,043	7	(7)	
	<u>6,825</u>	<u>5,506</u>	<u>19,457</u>	<u>28,547</u>	<u>60,335</u>	<u>848</u>	<u>(1,957)</u>	
	<u>31,859</u>	<u>19,990</u>	<u>22,675</u>	<u>32,613</u>	<u>107,137</u>	<u>1,196</u>	<u>(2,222)</u>	

No derivatives were designated as hedging instruments as at December 31, 2003.

Group

	December 31, 2004						Fair values	
	Notional amounts with remaining life of					Total	Assets	Liabilities
	Within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years				
Exchange rate contracts:								
Forward foreign exchange contracts ..	58,863	17,825	3,852	6,239	86,779	571	(670)	
Currency option contracts purchased	2,193	2,574	65	—	4,832	29	(44)	
	<u>61,056</u>	<u>20,399</u>	<u>3,917</u>	<u>6,239</u>	<u>91,611</u>	<u>600</u>	<u>(714)</u>	
Interest rate contracts:								
Interest rate swap contracts	12,468	10,293	57,976	43,591	124,328	1,247	(2,476)	
Cross-currency swap contracts	276	2,238	1,228	1,690	5,432	181	(270)	
Forward rate agreements	—	2,913	24,283	16,934	44,130	65	(65)	
Interest rate option contracts purchased/written	446	3,120	3,779	4,835	12,180	19	(30)	
	<u>13,190</u>	<u>18,564</u>	<u>87,266</u>	<u>67,050</u>	<u>186,070</u>	<u>1,512</u>	<u>(2,841)</u>	
Other derivative contracts	—	1,047	—	—	1,047	17	(1)	
	<u>74,246</u>	<u>40,010</u>	<u>91,183</u>	<u>73,289</u>	<u>278,728</u>	<u>2,129</u>	<u>(3,556)</u>	

(I) FINANCIAL INFORMATION (continued)

Notes to the Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

29. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Bank

	December 31, 2004						
	Notional amounts with remaining life of					Fair values	
	Within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Total	Assets	Liabilities
Exchange rate contracts:							
Forward foreign exchange contracts	34,799	12,227	3,820	6,239	57,085	504	(601)
Interest rate contracts:							
Interest rate swap contracts	1,388	4,350	46,027	36,975	88,740	919	(1,994)
Cross-currency swap contracts	276	2,238	1,228	1,690	5,432	181	(270)
Forward rate agreements	—	2,913	24,283	16,934	44,130	65	(65)
Interest rate option contracts purchased/written	414	746	166	1,426	2,752	4	(12)
	2,078	10,247	71,704	57,025	141,054	1,169	(2,341)
	36,877	22,474	75,524	63,264	198,139	1,673	(2,942)

No derivatives were designated as hedging instruments as at December 31, 2004.

Group

	December 31, 2005						
	Notional amounts with remaining life of					Fair values	
	Within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Total	Assets	Liabilities
Exchange rate contracts:							
Forward foreign exchange contracts	49,240	28,110	1,109	950	79,409	448	(400)
Currency option contracts purchased	2,291	1,068	96,975	—	100,334	7,403	(64)
	51,531	29,178	98,084	950	179,743	7,851	(464)
Interest rate contracts:							
Interest rate swap contracts	10,262	17,601	49,321	45,071	122,255	1,618	(2,883)
Cross-currency swap contracts	136	2,296	1,736	909	5,077	418	(113)
Forward rate agreements	7,174	5,097	22,564	11,525	46,360	67	(67)
Interest rate option contracts purchased/written	263	1,562	3,068	3,411	8,304	3	(3)
	17,835	26,556	76,689	60,916	181,996	2,106	(3,066)
	69,366	55,734	174,773	61,866	361,739	9,957	(3,530)

(I) FINANCIAL INFORMATION (continued)

Notes to the Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

29. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Bank

	December 31, 2005						
	Notional amounts with remaining life of					Fair values	
	Within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Total	Assets	Liabilities
Exchange rate contracts:							
Forward foreign exchange contracts	38,982	24,110	969	950	65,011	389	(370)
Currency option contracts purchased	47	—	96,842	—	96,889	7,335	(1)
	<u>39,029</u>	<u>24,110</u>	<u>97,811</u>	<u>950</u>	<u>161,900</u>	<u>7,724</u>	<u>(371)</u>
Interest rate contracts:							
Interest rate swap contracts	9,650	16,272	40,154	42,377	108,453	1,059	(2,182)
Cross-currency swap contracts	136	2,263	1,579	909	4,887	304	(109)
Forward rate agreements ..	7,174	5,097	22,564	11,525	46,360	67	(67)
Interest rate option contracts purchased/ written	—	167	—	3,256	3,423	—	—
	<u>16,960</u>	<u>23,799</u>	<u>64,297</u>	<u>58,067</u>	<u>163,123</u>	<u>1,430</u>	<u>(2,358)</u>
	<u>55,989</u>	<u>47,909</u>	<u>162,108</u>	<u>59,017</u>	<u>325,023</u>	<u>9,154</u>	<u>(2,729)</u>

Among the above derivative financial instruments, those designated as hedging instruments in fair value hedges are set out below:

Group and Bank

	December 31, 2005						
	Notional amounts with remaining life of					Fair values	
	Within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Total	Assets	Liabilities
Interest rate contracts:							
Interest rate swap contracts	—	48	2,600	2,599	5,247	46	(258)
Cross-currency swap contracts	—	—	—	67	67	—	(13)
	<u>—</u>	<u>48</u>	<u>2,600</u>	<u>2,666</u>	<u>5,314</u>	<u>46</u>	<u>(271)</u>

(I) FINANCIAL INFORMATION (continued)

Notes to the Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

29. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Group

	June 30, 2006					Fair values	
	Notional amounts with remaining life of					Assets	Liabilities
	Within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Total		
Exchange rate contracts:							
Forward foreign exchange contracts	70,909	42,142	6,022	595	119,668	836	(671)
Currency option contracts purchased	3,323	3,815	98,117	—	105,255	8,149	(24)
	<u>74,232</u>	<u>45,957</u>	<u>104,139</u>	<u>595</u>	<u>224,923</u>	<u>8,985</u>	<u>(695)</u>
Interest rate contracts:							
Interest rate swap contracts	11,140	22,034	45,567	44,568	123,309	2,065	(3,133)
Cross-currency swap contracts	1,328	3,837	601	1,317	7,083	162	(191)
Forward rate agreements	22,397	3,251	21,644	9,297	56,589	41	(42)
Interest rate option contracts purchased/written	571	786	2,710	3,409	7,476	3	(3)
	<u>35,436</u>	<u>29,908</u>	<u>70,522</u>	<u>58,591</u>	<u>194,457</u>	<u>2,271</u>	<u>(3,369)</u>
Other derivative contracts	88	—	—	—	88	4	(3)
	<u>109,756</u>	<u>75,865</u>	<u>174,661</u>	<u>59,186</u>	<u>419,468</u>	<u>11,260</u>	<u>(4,067)</u>

Bank

	June 30, 2006					Fair values	
	Notional amounts with remaining life of					Assets	Liabilities
	Within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Total		
Exchange rate contracts:							
Forward foreign exchange contracts	65,996	37,420	5,806	594	109,816	708	(536)
Currency option contracts purchased	—	—	96,842	—	96,842	8,125	—
	<u>65,996</u>	<u>37,420</u>	<u>102,648</u>	<u>594</u>	<u>206,658</u>	<u>8,833</u>	<u>(536)</u>
Interest rate contracts:							
Interest rate swap contracts	9,952	19,247	36,739	41,969	107,907	1,321	(2,275)
Cross-currency swap contracts	1,328	1,499	441	1,317	4,585	156	(186)
Forward rate agreements	22,274	3,147	21,644	9,297	56,362	41	(42)
Interest rate option contracts purchased/written	—	344	47	3,255	3,646	1	(1)
	<u>33,554</u>	<u>24,237</u>	<u>58,871</u>	<u>55,838</u>	<u>172,500</u>	<u>1,519</u>	<u>(2,504)</u>
	<u>99,550</u>	<u>61,657</u>	<u>161,519</u>	<u>56,432</u>	<u>379,158</u>	<u>10,352</u>	<u>(3,040)</u>

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****29. DERIVATIVE FINANCIAL INSTRUMENTS (continued)**

Among the above derivative financial instruments, those designated as hedging instruments in fair value hedges are set out below:

Group and Bank

	June 30, 2006					Fair values	
	Notional amounts with remaining life of					Assets	Liabilities
	Within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Total		
Interest rate contracts:							
Interest rate swap contracts	—	—	2,519	2,432	4,951	92	(97)
Cross-currency swap contracts	—	—	—	67	67	—	(15)
	—	—	2,519	2,499	5,018	92	(112)

The replacement costs and credit risk weighted amounts in respect of the above derivatives of the Group as at the balance sheet dates, which have taken into account the effects of bilateral netting arrangements, were as follows:

Replacement costs

	December 31,			June 30,
	2003	2004	2005	2006
Interest rate derivatives	1,208	1,512	2,106	2,271
Currency derivatives	414	600	7,851	8,985
Other derivatives	1	17	—	4
	1,623	2,129	9,957	11,260

Credit risk weighted amounts

	December 31,			June 30,
	2003	2004	2005	2006
Interest rate derivatives	1,847	2,954	3,403	3,502
Currency derivatives	1,592	2,078	1,456	2,471
Other derivatives	7	80	—	9
	3,446	5,112	4,859	5,982

The credit risk weighted amounts refer to the amounts as computed in accordance with the rules promulgated by the CBRC and depend on the status of the counterparties and the maturity characteristics.

In accordance with the rules promulgated by the CBRC, the credit risk weighting assigned to Huijin is zero. Therefore, the credit risk weighted amount of the currency option purchased from Huijin (note 39(b)) is zero.

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****30. CAPITAL AND OPERATING LEASE COMMITMENTS****(i) Capital commitments**

At each balance sheet date, the Group and the Bank had capital commitments as follows:

Group

	December 31,			June 30,
	2003	2004	2005	2006
Authorised, but not contracted for	218	202	680	6,666
Contracted, but not provided for	1,004	499	1,370	1,195
	<u>1,222</u>	<u>701</u>	<u>2,050</u>	<u>7,861</u>

Bank

	December 31,			June 30,
	2003	2004	2005	2006
Authorised, but not contracted for	218	202	680	6,655
Contracted, but not provided for	948	486	1,367	1,172
	<u>1,166</u>	<u>688</u>	<u>2,047</u>	<u>7,827</u>

(ii) Operating lease commitments

At each balance sheet date, the Group and the Bank leased certain of its premises under operating lease arrangements. The total future minimum lease payments in respect of non-cancellable operating leases were as follows:

Group

	December 31,			June 30,
	2003	2004	2005	2006
Within one year	1,202	1,298	1,331	1,467
Between the second and fifth year, inclusive	2,550	2,828	2,844	2,936
After five years	1,506	1,694	1,665	1,341
	<u>5,258</u>	<u>5,820</u>	<u>5,840</u>	<u>5,744</u>

Bank

	December 31,			June 30,
	2003	2004	2005	2006
Within one year	1,196	1,204	1,219	1,342
Between the second and fifth year, inclusive	2,546	2,644	2,649	2,683
After five years	1,506	1,544	1,506	1,210
	<u>5,248</u>	<u>5,392</u>	<u>5,374</u>	<u>5,235</u>

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****31. CREDIT COMMITMENTS***Group*

	December 31,			June 30,
	2003	2004	2005	2006
Letters of credit issued	55,913	59,674	51,718	57,784
Guarantees issued	83,786	92,573	121,117	146,998
Acceptances	83,511	68,736	92,565	122,390
Irrevocable loan commitments with original maturity:				
Within one year	61,933	55,833	25,665	117,383
Over one year	61,655	116,732	74,566	77,837
	346,798	393,548	365,631	522,392

Bank

	December 31,			June 30,
	2003	2004	2005	2006
Letters of credit issued	53,340	56,530	49,075	56,313
Guarantees issued	83,178	91,785	117,291	146,153
Acceptances	83,511	68,736	92,565	122,390
Irrevocable loan commitments with original maturity:				
Within one year	54,785	47,313	11,507	101,149
Over one year	54,545	100,539	63,975	65,381
	329,359	364,903	334,413	491,386

Credit risk weighted amount of credit commitments*Group*

	December 31,			June 30,
	2003	2004	2005	2006
Credit commitments	161,411	176,195	173,090	209,273

Bank

	December 31,			June 30,
	2003	2004	2005	2006
Credit commitments	156,902	167,674	169,020	202,303

The credit risk weighted amounts refer to the amounts computed in accordance with the rules promulgated by the CBRC and depend on the status of the counterparties and the maturity characteristics. The risk weights ranged from 0% to 100% for credit commitments.

The credit risk weighted amounts stated above include the effects of bilateral netting arrangements.

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****32. DESIGNATED DEPOSITS AND LOANS***Group and Bank*

	December 31,			June 30,
	2003	2004	2005	2006
Designated deposits	78,981	103,208	101,718	114,789
Designated loans	78,457	102,668	101,212	114,224

Designated deposits represent funds that depositors have instructed the Group or the Bank to use to make loans to third parties as designated by them. The credit risk remains with the depositors.

The difference between designated deposits and designated loans represents the undesignated amounts of deposits. Such amounts are included in amounts due to customers.

33. CONTINGENT LIABILITIES*(a) Legal proceedings*

There were litigation cases of which the Bank and/or its subsidiaries are the defendants, which are under legal proceedings. The claimed amounts at the end of each of the Relevant Periods are as follows:

Group

	December 31,			June 30,
	2003	2004	2005	2006
Claimed amounts	2,213	2,387	2,929	3,347

Bank

	December 31,			June 30,
	2003	2004	2005	2006
Claimed amounts	2,213	2,365	2,908	3,324

In the opinion of the directors, the Group and the Bank have made adequate allowance for any probable losses based on the current facts and circumstances (note 27).

(b) Redemption commitments of government bonds

As an underwriting agent of the Government, the Bank underwrites certain PRC government bonds and sells the bonds to the general public. The Bank is obliged to redeem the bonds at the discretion of the holders at any time prior to maturity. The redemption price for the bonds is based on the nominal value of the bonds plus any interest accrued up to the redemption date. As at December 31, 2003, 2004, 2005 and June 30, 2006, the Bank had underwritten and sold bonds with an accumulated amount of RMB206,773 million, RMB226,115 million, RMB232,418 million and

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****33. CONTINGENT LIABILITIES (continued)****(b) Redemption commitments of government bonds (continued)**

RMB250,729 million, respectively, to the general public, and that have not yet matured nor been redeemed. The directors expect that the amount of redemption of these government bonds through the Bank prior to maturity will not be material.

The MOF will not provide funding for the early redemption of these government bonds on a back-to-back basis but is obliged to repay the principal and the respective interest upon maturity.

(c) Underwriting obligations

At each balance sheet date, the unexpired underwriting commitments of the PRC government bonds were as follows:

Group and Bank

	December 31,			June 30,
	2003	2004	2005	2006
Underwriting obligations	—	14,890	2,370	9,640
	<u>—</u>	<u>14,890</u>	<u>2,370</u>	<u>9,640</u>

34. ASSETS PLEDGED AS SECURITY

As at December 31, 2003, 2004, 2005 and June 30, 2006, the Group's assets including securities, bills and loans which have been pledged for repurchase agreements amounted to approximately RMB16,253 million, RMB26,339 million, RMB32,301 million and RMB11,622 million, respectively (note 24).

35. FIDUCIARY ACTIVITIES

The Group provides custody, trustee and asset management services to third parties. As at December 31, 2003, 2004 and 2005 and June 30, 2006, the balances of assets held in custody accounts amounted to RMB58,132 million, RMB123,009 million, RMB213,240 million and RMB282,869 million, respectively.

36. FINANCIAL INSTRUMENTS RISK MANAGEMENT

This section describes the major risks the Group is exposed to and how the Group manages its risks.

(a) Credit risk

Credit risk is the risk of loss from the default by an obligor or counterparty when payments fall due. Credit risk is often greater when counterparties are concentrated in a single industry or geographic location or have comparable economic characteristics.

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****36. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)****(a) Credit risk (continued)**

The majority of the loans of the Group are for use within Mainland China, and major off-balance sheet items such as bank acceptances are also related to the domestic customers in Mainland China. However, different areas in Mainland China have their unique characteristics in terms of economic development. Therefore, each area in Mainland China could present a different credit risk.

The Group carries out credit assessment before granting credit to individual customers and monitors on a regular basis the credit granted. Credit risk is also managed through obtaining collateral and guarantees. In the case of off-balance sheet credit related commitments, guarantee deposits are in general received by the Group to reduce credit risk.

The Group regularly reviews its limits placed on different industry groups and geographical locations. Details of the industry and geographical concentration of the Group's credit business are set out below.

The composition of loans and advances by industry is as follows:

Group

	December 31,						June 30,	
	2003		2004		2005		2006	
Manufacturing	1,151,601	34%	1,078,309	29%	673,664	20%	679,478	20%
Transportation and logistics	322,795	10%	390,567	11%	379,015	11%	424,771	12%
Power generation and supply	204,611	6%	279,936	8%	284,935	9%	316,081	9%
Retail, wholesale and catering	351,996	10%	263,728	7%	280,969	9%	301,854	9%
Property development . .	216,723	6%	222,502	6%	217,000	7%	238,524	7%
Education, hospitals and other non-profit organisations	97,198	3%	121,969	3%	104,890	3%	133,379	4%
Construction	75,210	2%	83,397	2%	93,864	3%	86,557	2%
Others	408,089	12%	454,929	12%	335,074	10%	318,912	9%
Subtotal for corporate loans	2,828,223	83%	2,895,337	78%	2,369,411	72%	2,499,556	72%
Personal mortgage loans	339,261	10%	427,071	12%	459,248	14%	471,596	14%
Others	78,179	2%	75,149	2%	68,113	2%	73,529	2%
Subtotal for personal loans	417,440	12%	502,220	14%	527,361	16%	545,125	16%
	3,245,663	95%	3,397,557	92%	2,896,772	88%	3,044,681	88%
Discounted bills	156,614	5%	310,191	8%	392,781	12%	416,399	12%
	<u>3,402,277</u>	<u>100%</u>	<u>3,707,748</u>	<u>100%</u>	<u>3,289,553</u>	<u>100%</u>	<u>3,461,080</u>	<u>100%</u>

(I) FINANCIAL INFORMATION (continued)

Notes to the Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

36. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Bank

	December 31,				June 30,			
	2003		2004		2005		2006	
Manufacturing	1,142,560	34%	1,064,316	29%	667,894	21%	673,390	20%
Transportation and logistics	314,821	10%	386,534	11%	369,059	12%	413,848	12%
Power generation and supply	202,277	6%	268,880	8%	283,974	9%	314,840	9%
Retail, wholesale and catering . . .	347,976	10%	257,326	7%	269,044	8%	289,568	9%
Property development	210,783	6%	211,769	6%	199,993	6%	224,954	7%
Education, hospitals and other non-profit organisations	96,747	3%	121,164	3%	104,017	3%	133,378	4%
Construction	70,962	2%	79,243	2%	89,688	3%	83,705	2%
Others	406,179	12%	451,911	12%	322,765	10%	303,636	9%
Subtotal for corporate loans	2,792,305	83%	2,841,143	78%	2,306,434	72%	2,437,319	72%
Personal mortgage loans	330,115	10%	412,449	11%	447,302	14%	459,726	14%
Others	77,590	2%	74,533	2%	67,811	2%	73,379	2%
Subtotal for personal loans	407,705	12%	486,982	13%	515,113	16%	533,105	16%
	3,200,010	95%	3,328,125	91%	2,821,547	88%	2,970,424	88%
Discounted bills	156,489	5%	310,148	9%	392,717	12%	416,336	12%
	<u>3,356,499</u>	<u>100%</u>	<u>3,638,273</u>	<u>100%</u>	<u>3,214,264</u>	<u>100%</u>	<u>3,386,760</u>	<u>100%</u>

The geographical segment of loans and advances of the Group is analysed as follows:

Group

	December 31,				June 30,			
	2003		2004		2005		2006	
Head office	121,317	4%	140,324	4%	263,117	8%	267,865	8%
Yangtze River Delta	687,872	20%	757,085	20%	791,990	24%	856,732	25%
Pearl River Delta	475,848	14%	509,229	14%	453,773	14%	484,358	14%
Bohai Rim	586,009	17%	628,580	17%	574,513	17%	599,742	17%
Central China	524,733	16%	580,275	15%	424,628	13%	445,232	13%
Western China	552,112	16%	593,686	16%	484,134	15%	503,658	15%
North-eastern China	377,969	11%	399,326	11%	193,000	6%	192,066	5%
Overseas	76,417	2%	99,243	3%	104,398	3%	111,427	3%
	<u>3,402,277</u>	<u>100%</u>	<u>3,707,748</u>	<u>100%</u>	<u>3,289,553</u>	<u>100%</u>	<u>3,461,080</u>	<u>100%</u>

The Bank level geographical segment of loans and advances is not presented since the relevant balances attributable to the subsidiaries are considered insignificant to the Group and are mainly included in the overseas segment above.

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****36. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)*****(b) Liquidity risk***

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due. This may arise from amount or maturity mismatches of assets and liabilities.

The Group manages its liquidity risk through the Asset and Liability Management Department and aims at:

- optimising the assets and liabilities structure;
- maintaining the stability of the deposit base;
- projecting cash flows and evaluating the level of current assets; and
- in terms of liquidity of the branches, maintaining an efficient internal fund transfer mechanism.

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****36. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)****(b) Liquidity risk (continued)**

The tables below summarise the maturity analysis of assets and liabilities of the Group and the Bank at each balance sheet date.

Group

	December 31, 2003						
	Overdue/ repayable on demand	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Undated	Total
Assets:							
Cash and balances with central banks	130,042	—	—	—	—	327,774	457,816
Due from banks and other financial institutions (i)	11,310	104,613	19,591	—	—	1,734	137,248
Loans and advances to customers	2,844	449,169	990,413	560,355	642,874	120,400	2,766,055
Investments							
—Receivables	—	—	—	—	397,996	—	397,996
—Held-to-maturity securities	—	9,552	46,889	138,937	168,449	—	363,827
—Available-for-sale investments	—	48,529	54,308	96,789	47,198	10,466	257,290
—Investments at fair value through profit or loss	—	1,933	10,154	3,297	10,233	—	25,617
—Investments in associates	—	—	—	—	—	274	274
Property and equipment	—	—	—	—	—	77,767	77,767
Others	11,919	3,926	4,196	32,066	3,575	17,379	73,061
Total assets	156,115	617,722	1,125,551	831,444	1,270,325	555,794	4,556,951
Liabilities:							
Due to banks and other financial institutions (ii)	133,640	91,200	38,366	4,439	—	—	267,645
Due to customers (iii)	2,390,291	873,388	1,145,286	297,593	3,679	—	4,710,237
Others	90,821	10,596	13,196	3,550	40	—	118,203
Total liabilities	2,614,752	975,184	1,196,848	305,582	3,719	—	5,096,085
Net liquidity gap	(2,458,637)	(357,462)	(71,297)	525,862	1,266,606	555,794	(539,134)
(i) Includes reverse repurchase agreements.							
(ii) Includes due to a central bank and repurchase agreements.							
(iii) Includes certificates of deposits.							

(I) FINANCIAL INFORMATION (continued)

Notes to the Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

36. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

Bank

	December 31, 2003						Total
	Overdue/ repayable on demand	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Undated	
Assets:							
Cash and balances with central banks	129,986	—	—	—	—	327,773	457,759
Due from banks and other financial institutions (i)	9,929	120,379	15,211	—	—	1,734	147,253
Loans and advances to customers	2,844	443,730	985,995	539,344	629,209	119,868	2,720,990
Investments							
—Receivables	—	—	—	—	397,996	—	397,996
—Held-to-maturity securities	—	9,481	45,899	133,936	170,242	—	359,558
—Available-for-sale investments	—	48,511	54,811	94,753	46,553	9,846	254,474
—Investments at fair value through profit or loss ...	—	1,933	10,154	3,297	10,233	—	25,617
—Investments in associates	—	—	—	—	—	83	83
—Investments in subsidiaries	—	—	—	—	—	7,098	7,098
Property and equipment	—	—	—	—	—	77,184	77,184
Others	10,893	3,742	3,991	32,066	3,575	15,956	70,223
Total assets	<u>153,652</u>	<u>627,776</u>	<u>1,116,061</u>	<u>803,396</u>	<u>1,257,808</u>	<u>559,542</u>	<u>4,518,235</u>
Liabilities:							
Due to banks and other financial institutions (ii)	156,903	80,153	32,769	4,439	—	—	274,264
Due to customers	2,379,977	846,586	1,142,680	295,101	3,673	—	4,668,017
Others	89,319	10,367	13,196	3,550	40	—	116,472
Total liabilities	<u>2,626,199</u>	<u>937,106</u>	<u>1,188,645</u>	<u>303,090</u>	<u>3,713</u>	<u>—</u>	<u>5,058,753</u>
Net liquidity gap	<u>(2,472,547)</u>	<u>(309,330)</u>	<u>(72,584)</u>	<u>500,306</u>	<u>1,254,095</u>	<u>559,542</u>	<u>(540,518)</u>

(i) Includes reverse repurchase agreements.

(ii) Includes due to a central bank and repurchase agreements.

(I) FINANCIAL INFORMATION (continued)

Notes to the Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

36. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

Group

	December 31, 2004						Total
	Overdue/ repayable on demand	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Undated	
Assets:							
Cash and balances with central banks	108,932	—	—	—	—	399,684	508,616
Due from banks and other financial institutions (i)	7,743	62,935	19,495	—	—	1,021	91,194
Loans and advances to customers	19,097	477,293	971,886	781,003	628,690	231,222	3,109,191
Investments							
—Receivables	—	—	—	—	397,996	—	397,996
—Held-to-maturity securities	—	4,570	51,547	211,630	160,482	—	428,229
—Available-for-sale investments	—	99,606	123,424	119,496	40,239	7,977	390,742
—Investments at fair value through profit or loss	—	—	11,605	1,561	283	—	13,449
—Investments in associates	—	—	—	—	—	117	117
Property and equipment	—	—	—	—	—	75,579	75,579
Others	10,228	4,833	7,095	11,984	—	20,071	54,211
Total assets	146,000	649,237	1,185,052	1,125,674	1,227,690	735,671	5,069,324
Liabilities:							
Due to banks and other financial institutions (ii)	168,225	76,359	15,217	595	40	—	260,436
Due to customers (iii)	2,611,723	991,887	1,239,422	333,025	3,905	—	5,179,962
Debt issued	—	—	—	3,294	—	—	3,294
Others	102,585	12,023	15,009	4,013	47	—	133,677
Total liabilities	2,882,533	1,080,269	1,269,648	340,927	3,992	—	5,577,369
Net liquidity gap	(2,736,533)	(431,032)	(84,596)	784,747	1,223,698	735,671	(508,045)

(i) Includes reverse repurchase agreements.

(ii) Includes due to a central bank and repurchase agreements.

(iii) Includes certificates of deposits.

(I) FINANCIAL INFORMATION (continued)

Notes to the Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

36. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

Bank

December 31, 2004

	Overdue/ repayable on demand	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Undated	Total
Assets:							
Cash and balances with central banks	108,762	—	—	—	—	399,683	508,445
Due from banks and other financial institutions (i)	9,125	67,468	18,984	—	—	1,021	96,598
Loans and advances to customers	19,097	466,936	964,520	752,568	608,637	228,869	3,040,627
Investments							
—Receivables	—	—	—	—	397,996	—	397,996
—Held-to-maturity securities	—	3,704	54,235	205,358	159,562	—	422,859
—Available-for-sale investments	—	99,439	123,167	117,186	39,470	7,421	386,683
—Investments at fair value through profit or loss	—	—	11,605	1,561	283	—	13,449
—Investments in associates	—	—	—	—	—	74	74
—Investments in subsidiaries	—	—	—	—	—	7,087	7,087
Property and equipment	—	—	—	—	—	75,124	75,124
Others	10,228	3,164	6,490	11,984	—	18,957	50,823
Total assets	<u>147,212</u>	<u>640,711</u>	<u>1,179,001</u>	<u>1,088,657</u>	<u>1,205,948</u>	<u>738,236</u>	<u>4,999,765</u>
Liabilities:							
Due to banks and other financial institutions (ii)	168,224	80,265	16,279	596	40	—	265,404
Due to customers	2,595,504	948,836	1,236,429	330,532	3,896	—	5,115,197
Others	100,357	12,023	15,009	4,013	47	—	131,449
Total liabilities	<u>2,864,085</u>	<u>1,041,124</u>	<u>1,267,717</u>	<u>335,141</u>	<u>3,983</u>	<u>—</u>	<u>5,512,050</u>
Net liquidity gap	<u>(2,716,873)</u>	<u>(400,413)</u>	<u>(88,716)</u>	<u>753,516</u>	<u>1,201,965</u>	<u>738,236</u>	<u>(512,285)</u>

(i) Includes reverse repurchase agreements.

(ii) Includes due to a central bank and repurchase agreements.

(I) FINANCIAL INFORMATION (continued)

Notes to the Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

36. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

Group

December 31, 2005

	Overdue/ repayable on demand	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Undated	Total
Assets:							
Cash and balances with central banks	99,735	—	—	—	—	454,138	553,873
Due from banks and other financial institutions (i)	25,331	161,437	34,484	145	—	—	221,397
Loans and advances to customers	43,621	518,383	997,064	829,482	716,047	101,264	3,205,861
Investments							
—Receivables	—	—	—	989,461	85,000	—	1,074,461
—Held-to-maturity securities	—	79,606	328,393	323,469	151,236	—	882,704
—Available-for-sale investments	—	71,312	77,033	124,586	51,948	5,304	330,183
—Investments at fair value through profit or loss	—	—	877	15,374	2,090	—	18,341
—Investments in associates	—	—	—	—	—	120	120
Property and equipment	—	—	—	—	—	92,984	92,984
Others	11,875	17,053	7,774	4,643	2,122	32,740	76,207
Total assets	<u>180,562</u>	<u>847,791</u>	<u>1,445,625</u>	<u>2,287,160</u>	<u>1,008,443</u>	<u>686,550</u>	<u>6,456,131</u>
Liabilities:							
Due to banks and other financial institutions (ii)	174,781	65,759	24,186	485	—	—	265,211
Due to customers (iii)	2,878,156	1,098,275	1,357,413	403,898	4,828	—	5,742,570
Debt issued	—	—	—	3,076	35,000	—	38,076
Others	112,221	14,656	18,102	5,352	67	—	150,398
Total liabilities	<u>3,165,158</u>	<u>1,178,690</u>	<u>1,399,701</u>	<u>412,811</u>	<u>39,895</u>	<u>—</u>	<u>6,196,255</u>
Net liquidity gap	<u>(2,984,596)</u>	<u>(330,899)</u>	<u>45,924</u>	<u>1,874,349</u>	<u>968,548</u>	<u>686,550</u>	<u>259,876</u>

(i) Includes reverse repurchase agreements.

(ii) Includes repurchase agreements.

(iii) Includes certificates of deposits.

(I) FINANCIAL INFORMATION (continued)

Notes to the Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

36. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

Bank

December 31, 2005

	Overdue/ repayable on demand	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Undated	Total
Assets:							
Cash and balances with central banks	99,435	—	—	—	—	454,137	553,572
Due from banks and other financial institutions (i)	15,330	162,303	41,383	145	—	—	219,161
Loans and advances to customers	40,751	509,245	986,700	801,558	693,993	98,849	3,131,096
Investments							
—Receivables	—	—	—	989,461	85,000	—	1,074,461
—Held-to-maturity securities	—	79,182	327,579	324,410	156,506	—	887,677
—Available-for-sale investments	—	70,996	75,691	118,330	49,480	4,614	319,111
—Investments at fair value through profit or loss	—	—	877	14,652	1,053	—	16,582
—Investments in associates	—	—	—	—	—	74	74
—Investments in subsidiaries	—	—	—	—	—	7,112	7,112
Property and equipment	—	—	—	—	—	92,615	92,615
Others	9,970	16,909	7,244	4,643	2,002	32,596	73,364
Total assets	<u>165,486</u>	<u>838,635</u>	<u>1,439,474</u>	<u>2,253,199</u>	<u>988,034</u>	<u>689,997</u>	<u>6,374,825</u>
Liabilities:							
Due to banks and other financial institutions (ii)	173,051	66,451	24,556	485	—	—	264,543
Due to customers	2,860,671	1,052,375	1,353,874	400,117	4,817	—	5,671,854
Debt issued	—	—	—	—	35,000	—	35,000
Others	110,401	14,656	18,102	5,352	67	—	148,578
Total liabilities	<u>3,144,123</u>	<u>1,133,482</u>	<u>1,396,532</u>	<u>405,954</u>	<u>39,884</u>	<u>—</u>	<u>6,119,975</u>
Net liquidity gap	<u>(2,978,637)</u>	<u>(294,847)</u>	<u>42,942</u>	<u>1,847,245</u>	<u>948,150</u>	<u>689,997</u>	<u>254,850</u>

(i) Includes reverse repurchase agreements.

(ii) Includes repurchase agreements.

(I) FINANCIAL INFORMATION (continued)

Notes to the Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

36. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

Group

June 30, 2006

	Overdue/ repayable on demand	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Undated	Total
Assets:							
Cash and balances with central banks	117,006	—	—	—	—	481,263	598,269
Due from banks and other financial institutions (i)	29,824	155,136	51,605	110	—	—	236,675
Loans and advances to customers	45,412	573,034	1,001,223	887,210	772,421	96,042	3,375,342
Investments							
—Receivables	—	—	—	993,786	85,000	—	1,078,786
—Held-to-maturity securities	—	98,627	452,692	352,765	175,282	—	1,079,366
—Available-for-sale investments	—	168,799	85,045	123,743	66,230	5,385	449,202
—Investments at fair value through profit or loss	—	7,029	20,330	19,480	3,590	36	50,465
—Investments in associates	—	—	—	—	—	125	125
Property and equipment	—	—	—	—	—	88,709	88,709
Others	15,222	21,859	9,965	5,952	2,720	41,968	97,686
Total assets	<u>207,464</u>	<u>1,024,484</u>	<u>1,620,860</u>	<u>2,383,046</u>	<u>1,105,243</u>	<u>713,528</u>	<u>7,054,625</u>
Liabilities:							
Due to banks and other financial institutions (ii)	242,006	101,155	35,007	672	—	—	378,840
Due to customers (iii)	2,974,356	1,094,353	1,508,173	543,266	5,881	—	6,126,029
Debt issued	—	—	—	2,987	35,000	—	37,987
Others	136,029	17,765	21,942	6,487	81	—	182,304
Total liabilities	<u>3,352,391</u>	<u>1,213,273</u>	<u>1,565,122</u>	<u>553,412</u>	<u>40,962</u>	<u>—</u>	<u>6,725,160</u>
Net liquidity gap	<u>(3,144,927)</u>	<u>(188,789)</u>	<u>55,738</u>	<u>1,829,634</u>	<u>1,064,281</u>	<u>713,528</u>	<u>329,465</u>

(i) Includes reverse repurchase agreements.

(ii) Includes repurchase agreements.

(iii) Includes certificates of deposits.

(I) FINANCIAL INFORMATION (continued)

Notes to the Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

36. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

Bank

	June 30, 2006						Total
	Overdue/ repayable on demand	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Undated	
Assets:							
Cash and balances with central banks	116,584	—	—	—	—	481,260	597,844
Due from banks and other financial institutions (i)	15,906	149,097	52,609	110	—	—	217,722
Loans and advances to customers	45,405	561,769	993,836	860,630	744,038	95,774	3,301,452
Investments							
—Receivables	—	—	—	993,786	85,000	—	1,078,786
—Held-to-maturity securities	—	98,502	450,912	355,213	180,614	—	1,085,241
—Available-for-sale investments	—	168,706	84,228	117,080	65,961	4,647	440,622
—Investments at fair value through profit or loss	—	6,817	19,965	18,912	2,442	—	48,136
—Investments in associates	—	—	—	—	—	74	74
—Investments in subsidiaries	—	—	—	—	—	7,063	7,063
Property and equipment	—	—	—	—	—	88,343	88,343
Others	14,705	21,118	9,627	5,750	2,628	40,544	94,372
Total assets	192,600	1,006,009	1,611,177	2,351,481	1,080,683	717,705	6,959,655
Liabilities:							
Due to banks and other financial institutions (ii)	245,292	102,722	35,741	681	—	—	384,436
Due to customers	2,956,069	1,032,841	1,502,473	539,065	5,871	—	6,036,319
Debt issued	—	—	—	—	35,000	—	35,000
Others	134,072	17,510	21,627	6,394	80	—	179,683
Total liabilities	3,335,433	1,153,073	1,559,841	546,140	40,951	—	6,635,438
Net liquidity gap	(3,142,833)	(147,064)	51,336	1,805,341	1,039,732	717,705	324,217

(i) Includes reverse repurchase agreements.

(ii) Includes repurchase agreements.

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****36. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)***(c) Market risk*

The Group's market risk mainly arises from open positions in interest rate and currency products. The management of these specific risks is summarised in note 36(d) and 36(e), respectively.

(d) Currency risk

The Group conducts its business mainly in RMB, with certain transactions denominated in US\$, HK\$ and, to a much lesser extent, other currencies. These transactions arise from the Group's treasury exposures and foreign operations.

The exchange rate of RMB to US\$ was set by the PBOC and had fluctuated within a narrow band prior to July 2005. Since then, a managed-floating exchange rate system has been used and US\$ exchange rate has gradually declined against the RMB. The HK\$ exchange rate has been pegged to the US\$ and therefore the exchange rate of RMB to HK\$ has fluctuated in line with the changes in exchange rate of RMB to US\$.

The Group has used the capital injection of US\$15,000 million in 2005 to invest in debt investments and money market instruments denominated in U.S. dollars. In April 2005, the Bank purchased from Huijin an option to sell to Huijin a maximum of US\$12,000 million in exchange for RMB at a pre-determined exchange rate of US\$1 to RMB8.2765. Details of this option are set out in note 39(b)(ii).

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****36. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)****(d) Currency risk (continued)**

A breakdown of relevant assets and liabilities analysed by currency is as follows:

Group

	December 31, 2003				
	RMB	US\$	HK\$	Others	Total
Assets:					
Cash and balances with central banks	449,337	6,192	1,174	1,113	457,816
Due from banks and other financial institutions (i)	77,233	49,095	5,438	5,482	137,248
Loans and advances to customers	2,568,115	117,296	64,073	16,571	2,766,055
Investments	980,122	45,725	7,338	11,819	1,045,004
Property and equipment	76,486	589	692	—	77,767
Others	61,405	8,407	3,091	158	73,061
Total assets	<u>4,212,698</u>	<u>227,304</u>	<u>81,806</u>	<u>35,143</u>	<u>4,556,951</u>
Liabilities:					
Due to banks and other financial institutions (ii)	232,073	18,507	15,638	1,427	267,645
Due to customers (iii)	4,475,314	165,234	60,763	8,926	4,710,237
Others	72,780	10,023	7,119	28,281	118,203
Total liabilities	<u>4,780,167</u>	<u>193,764</u>	<u>83,520</u>	<u>38,634</u>	<u>5,096,085</u>
Net position	<u>(567,469)</u>	<u>33,540</u>	<u>(1,714)</u>	<u>(3,491)</u>	<u>(539,134)</u>
Off-balance sheet credit commitments	<u>204,528</u>	<u>119,702</u>	<u>18,506</u>	<u>4,062</u>	<u>346,798</u>

(i) Includes reverse repurchase agreements.

(ii) Includes due to a central bank and repurchase agreements.

(iii) Includes certificates of deposits.

(I) FINANCIAL INFORMATION (continued)

Notes to the Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

36. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

*(d) Currency risk (continued)**Bank*

	December 31, 2003				
	RMB	US\$	HKS	Others	Total
Assets:					
Cash and balances with central banks	449,337	6,192	1,145	1,085	457,759
Due from banks and other financial institutions (i)	77,265	55,477	7,122	7,389	147,253
Loans and advances to customers	2,568,114	109,580	34,399	8,897	2,720,990
Investments	980,126	44,872	9,344	10,484	1,044,826
Property and equipment	76,485	589	110	—	77,184
Others	61,767	7,106	1,264	86	70,223
Total assets	<u>4,213,094</u>	<u>223,816</u>	<u>53,384</u>	<u>27,941</u>	<u>4,518,235</u>
Liabilities:					
Due to banks and other financial institutions (ii)	232,072	23,253	14,082	4,857	274,264
Due to customers	4,475,314	148,967	37,906	5,830	4,668,017
Others	73,141	8,806	6,929	27,596	116,472
Total liabilities	<u>4,780,527</u>	<u>181,026</u>	<u>58,917</u>	<u>38,283</u>	<u>5,058,753</u>
Net position	<u>(567,433)</u>	<u>42,790</u>	<u>(5,533)</u>	<u>(10,342)</u>	<u>(540,518)</u>
Off-balance sheet credit commitments	<u>190,270</u>	<u>119,702</u>	<u>15,325</u>	<u>4,062</u>	<u>329,359</u>

(i) Includes reverse repurchase agreements.

(ii) Includes due to a central bank and repurchase agreements.

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****36. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)****(d) Currency risk (continued)****Group**

	December 31, 2004				
	RMB	US\$	HKS	Others	Total
Assets:					
Cash and balances with central banks	500,059	6,156	978	1,423	508,616
Due from banks and other financial institutions (i)	29,368	43,445	12,229	6,152	91,194
Loans and advances to customers	2,887,664	125,078	85,694	10,755	3,109,191
Investments	1,162,210	46,389	7,256	14,678	1,230,533
Property and equipment	74,404	705	470	—	75,579
Others	47,329	6,084	203	595	54,211
Total assets	<u>4,701,034</u>	<u>227,857</u>	<u>106,830</u>	<u>33,603</u>	<u>5,069,324</u>
Liabilities:					
Due to banks and other financial institutions (ii)	219,438	22,690	12,259	6,049	260,436
Due to customers (iii)	4,923,306	174,672	71,361	10,623	5,179,962
Debt issued	—	3,294	—	—	3,294
Others	111,674	11,841	6,537	3,625	133,677
Total liabilities	<u>5,254,418</u>	<u>212,497</u>	<u>90,157</u>	<u>20,297</u>	<u>5,577,369</u>
Net position	<u>(553,384)</u>	<u>15,360</u>	<u>16,673</u>	<u>13,306</u>	<u>(508,045)</u>
Off-balance sheet credit commitments	<u>271,350</u>	<u>97,971</u>	<u>20,593</u>	<u>3,634</u>	<u>393,548</u>

(i) Includes reverse repurchase agreements.

(ii) Includes due to a central bank and repurchase agreements.

(iii) Includes certificates of deposits.

(I) FINANCIAL INFORMATION (continued)

Notes to the Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

36. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

*(d) Currency risk (continued)**Bank*

	December 31, 2004				
	RMB	US\$	HK\$	Others	Total
Assets:					
Cash and balances with central banks	500,059	6,156	837	1,393	508,445
Due from banks and other financial institutions (i)	29,422	47,080	8,048	12,048	96,598
Loans and advances to customers	2,887,664	114,107	34,523	4,333	3,040,627
Investments	1,162,212	45,399	9,218	11,319	1,228,148
Property and equipment	74,304	705	115	—	75,124
Others	47,328	3,024	120	351	50,823
Total assets	<u>4,700,989</u>	<u>216,471</u>	<u>52,861</u>	<u>29,444</u>	<u>4,999,765</u>
Liabilities:					
Due to banks and other financial institutions (ii)	220,267	25,894	3,061	16,182	265,404
Due to customers	4,923,182	148,741	37,460	5,814	5,115,197
Others	111,672	10,236	6,138	3,403	131,449
Total liabilities	<u>5,255,121</u>	<u>184,871</u>	<u>46,659</u>	<u>25,399</u>	<u>5,512,050</u>
Net position	<u>(554,132)</u>	<u>31,600</u>	<u>6,202</u>	<u>4,045</u>	<u>(512,285)</u>
Off-balance sheet credit commitments	<u>246,638</u>	<u>97,971</u>	<u>16,660</u>	<u>3,634</u>	<u>364,903</u>

(i) Includes reverse repurchase agreements.

(ii) Includes due to a central bank and repurchase agreements.

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****36. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)****(d) Currency risk (continued)****Group**

	December 31, 2005				
	RMB	US\$	HKS	Others	Total
Assets:					
Cash and balances with central banks	544,796	5,652	2,083	1,342	553,873
Due from banks and other financial institutions (i)	97,977	100,676	9,883	12,861	221,397
Loans and advances to customers	2,971,018	132,304	82,450	20,089	3,205,861
Investments	2,192,798	91,349	7,934	13,728	2,305,809
Property and equipment	92,182	253	261	288	92,984
Others	64,601	8,577	1,812	1,217	76,207
Total assets	5,963,372	338,811	104,423	49,525	6,456,131
Liabilities:					
Due to banks and other financial institutions (ii)	215,081	31,644	10,531	7,955	265,211
Due to customers (iii)	5,502,327	145,597	69,450	25,196	5,742,570
Debt issued	35,000	3,076	—	—	38,076
Others	130,334	7,256	6,536	6,272	150,398
Total liabilities	5,882,742	187,573	86,517	39,423	6,196,255
Net position	80,630	151,238	17,906	10,102	259,876
Off-balance sheet credit commitments	263,260	63,856	28,121	10,394	365,631

(i) Includes reverse repurchase agreements.

(ii) Includes repurchase agreements.

(iii) Includes certificates of deposits.

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****36. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)****(d) Currency risk (continued)****Bank**

	December 31, 2005				
	RMB	US\$	HK\$	Others	Total
Assets:					
Cash and balances with central banks	544,782	5,635	1,936	1,219	553,572
Due from banks and other financial institutions (i)	97,746	98,354	10,020	13,041	219,161
Loans and advances to customers	2,971,826	115,944	25,824	17,502	3,131,096
Investments	2,192,892	89,544	10,390	12,191	2,305,017
Property and equipment	92,074	252	4	285	92,615
Others	61,885	8,483	1,792	1,204	73,364
Total assets	<u>5,961,205</u>	<u>318,212</u>	<u>49,966</u>	<u>45,442</u>	<u>6,374,825</u>
Liabilities:					
Due to banks and other financial institutions (ii)	233,919	17,093	8,540	4,991	264,543
Due to customers	5,502,119	121,102	31,267	17,366	5,671,854
Debt issued	35,000	—	—	—	35,000
Others	128,576	4,980	7,666	7,356	148,578
Total liabilities	<u>5,899,614</u>	<u>143,175</u>	<u>47,473</u>	<u>29,713</u>	<u>6,119,975</u>
Net position	<u>61,591</u>	<u>175,037</u>	<u>2,493</u>	<u>15,729</u>	<u>254,850</u>
Off-balance sheet credit commitments	<u>238,512</u>	<u>63,856</u>	<u>21,651</u>	<u>10,394</u>	<u>334,413</u>

(i) Includes reverse repurchase agreements.

(ii) Includes repurchase agreements.

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****36. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)****(d) Currency risk (continued)****Group**

	June 30, 2006				
	RMB	US\$	HK\$	Others	Total
Assets:					
Cash and balances with central banks	589,487	5,611	1,719	1,452	598,269
Due from banks and other financial institutions (i)	115,087	99,796	4,756	17,036	236,675
Loans and advances to customers	3,149,983	120,088	88,866	16,405	3,375,342
Investments	2,524,442	115,472	6,930	11,100	2,657,944
Property and equipment	87,917	340	259	193	88,709
Others	82,809	10,994	2,323	1,560	97,686
Total assets	<u>6,549,725</u>	<u>352,301</u>	<u>104,853</u>	<u>47,746</u>	<u>7,054,625</u>
Liabilities:					
Due to banks and other financial institutions (ii)	312,779	48,171	8,714	9,176	378,840
Due to customers (iii)	5,867,087	156,254	81,902	20,786	6,126,029
Debt issued	35,000	2,987	—	—	37,987
Others	157,984	8,795	7,923	7,602	182,304
Total liabilities	<u>6,372,850</u>	<u>216,207</u>	<u>98,539</u>	<u>37,564</u>	<u>6,725,160</u>
Net position	<u>176,875</u>	<u>136,094</u>	<u>6,314</u>	<u>10,182</u>	<u>329,465</u>
Off-balance sheet credit commitments	<u>366,699</u>	<u>99,926</u>	<u>31,266</u>	<u>24,501</u>	<u>522,392</u>

(i) Includes reverse repurchase agreements.

(ii) Includes repurchase agreements.

(iii) Includes certificates of deposits.

(I) FINANCIAL INFORMATION (continued)

Notes to the Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

36. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

*(d) Currency risk (continued)**Bank*

	June 30, 2006				
	RMB	US\$	HK\$	Others	Total
Assets:					
Cash and balances with central banks	589,466	5,603	1,534	1,241	597,844
Due from banks and other financial institutions (i)	115,071	80,675	7,737	14,239	217,722
Loans and advances to customers	3,149,983	104,424	33,412	13,633	3,301,452
Investments	2,524,513	116,063	10,032	9,314	2,659,922
Property and equipment	87,899	252	3	189	88,343
Others	80,000	10,621	2,244	1,507	94,372
Total assets	6,546,932	317,638	54,962	40,123	6,959,655
Liabilities:					
Due to banks and other financial institutions (ii)	312,872	53,542	8,264	9,758	384,436
Due to customers	5,866,854	123,123	31,018	15,324	6,036,319
Debt issued	35,000	—	—	—	35,000
Others	155,712	8,669	7,809	7,493	179,683
Total liabilities	6,370,438	185,334	47,091	32,575	6,635,438
Net position	176,494	132,304	7,871	7,548	324,217
Off-balance sheet credit commitments	366,682	93,286	9,171	22,247	491,386

(i) Includes reverse repurchase agreements.

(ii) Includes repurchase agreements.

(e) Interest rate risk

The Group's interest rate risk arises from the differences in timing between contractual maturities and repricing of interest-bearing assets and liabilities. The Group's interest-bearing assets and liabilities are mainly denominated in RMB. The PBOC establishes RMB benchmark interest rates which have a cap for RMB deposit rates and a floor for RMB loan rates.

The Group manages its interest rate risk by:

- regularly monitoring the macro economic factors that may impact on the PBOC benchmark rates;
- optimising the differences in timing between contractual maturities and repricing of interest-bearing assets and liabilities; and
- managing the deviation of the pricing of interest-bearing assets and liabilities from the PBOC benchmark rates.

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****36. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)****(e) Interest rate risk (continued)**

The table below summarises the contractual repricing or maturity date, whichever is earlier, of the Group's and the Bank's financial assets and liabilities:

Group

December 31, 2003

	Effective interest rate (i)	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Non-interest- bearing	Total
Assets:							
Cash and balances with central banks	1.93%	428,231	—	—	—	29,585	457,816
Due from banks and other financial institutions (ii) . . .	1.86%	117,657	19,591	—	—	—	137,248
Loans and advances to customers	4.58%	1,076,772	1,689,283	—	—	—	2,766,055
Investments	3.24%	84,845	236,537	184,848	528,034	10,740	1,045,004
Property and equipment	N/A	—	—	—	—	77,767	77,767
Others	N/A	—	—	—	—	73,061	73,061
Total assets	3.98%	1,707,505	1,945,411	184,848	528,034	191,153	4,556,951
Liabilities:							
Due to banks and other financial institutions (iii) . . .	1.71%	222,781	16,094	4,439	—	24,331	267,645
Due to customers (iv)	1.36%	3,192,691	1,145,286	297,593	3,679	70,988	4,710,237
Others	N/A	—	—	—	—	118,203	118,203
Total liabilities	1.39%	3,415,472	1,161,380	302,032	3,679	213,522	5,096,085
Interest rate mismatch	2.59%	(1,707,967)	784,031	(117,184)	524,355	N/A	N/A

(i) Effective interest rate represents the ratio of interest income/expense to average balance of interest bearing assets/liabilities.

(ii) Includes reverse repurchase agreements.

(iii) Includes due to a central bank and repurchase agreements.

(iv) Includes certificates of deposits.

(I) FINANCIAL INFORMATION (continued)

Notes to the Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

36. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

*(e) Interest rate risk (continued)**Bank*

December 31, 2003

	Effective interest rate (i)	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Non-interest- bearing	Total
Assets:							
Cash and balances with central banks	1.93%	428,220	—	—	—	29,539	457,759
Due from banks and other financial institutions (ii) ...	1.88%	125,345	21,908	—	—	—	147,253
Loans and advances to customers	4.61%	1,058,745	1,662,245	—	—	—	2,720,990
Investments	3.27%	83,864	240,139	178,592	525,204	17,027	1,044,826
Property and equipment	N/A	—	—	—	—	77,184	77,184
Others	N/A	—	—	—	—	70,223	70,223
Total assets	4.01%	<u>1,696,174</u>	<u>1,924,292</u>	<u>178,592</u>	<u>525,204</u>	<u>193,973</u>	<u>4,518,235</u>
Liabilities:							
Due to banks and other financial institutions (iii) ...	1.76%	228,802	16,692	4,439	—	24,331	274,264
Due to customers	1.39%	3,155,576	1,142,680	295,101	3,673	70,987	4,668,017
Others	N/A	—	—	—	—	116,472	116,472
Total liabilities	1.41%	<u>3,384,378</u>	<u>1,159,372</u>	<u>299,540</u>	<u>3,673</u>	<u>211,790</u>	<u>5,058,753</u>
Interest rate mismatch	<u>2.60%</u>	<u>(1,688,204)</u>	<u>764,920</u>	<u>(120,948)</u>	<u>521,531</u>	<u>N/A</u>	<u>N/A</u>

(i) Effective interest rate represents the ratio of interest income/expense to average balance of interest bearing assets/liabilities.

(ii) Includes reverse repurchase agreements.

(iii) Includes due to a central bank and repurchase agreements.

(I) FINANCIAL INFORMATION (continued)

Notes to the Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

36. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

*(e) Interest rate risk (continued)**Group*

December 31, 2004

	Effective interest rate (i)	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Non-interest- bearing	Total
Assets:							
Cash and balances with central banks	1.84%	478,722	—	—	—	29,894	508,616
Due from banks and other financial institutions (ii)	1.61%	71,699	19,495	—	—	—	91,194
Loans and advances to customers	4.48%	1,156,737	1,951,763	195	496	—	3,109,191
Investments	3.08%	131,491	314,864	266,817	509,267	8,094	1,230,533
Property and equipment . .	N/A	—	—	—	—	75,579	75,579
Others	N/A	—	—	—	—	54,211	54,211
Total assets	3.88%	1,838,649	2,286,122	267,012	509,763	167,778	5,069,324
Liabilities:							
Due to banks and other financial institutions (iii)	1.59%	220,482	15,217	595	40	24,102	260,436
Due to customers (iv)	1.32%	3,535,057	1,239,422	333,025	3,905	68,553	5,179,962
Debt issued	4.12%	—	—	3,294	—	—	3,294
Others	N/A	—	—	—	—	133,677	133,677
Total liabilities	1.34%	3,755,539	1,254,639	336,914	3,945	226,332	5,577,369
Interest rate mismatch	<u>2.54%</u>	<u>(1,916,890)</u>	<u>1,031,483</u>	<u>(69,902)</u>	<u>505,818</u>	<u>N/A</u>	<u>N/A</u>

(i) Effective interest rate represents the ratio of interest income/expense to average balance of interest bearing assets/liabilities.

(ii) Includes reverse repurchase agreements.

(iii) Includes due to a central bank and repurchase agreements.

(iv) Includes certificates of deposits.

(I) FINANCIAL INFORMATION (continued)

Notes to the Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

36. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

*(e) Interest rate risk (continued)**Bank*

December 31, 2004

	Effective interest rate (i)	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Non-interest- bearing	Total
Assets:							
Cash and balances with central banks	1.84%	478,710	—	—	—	29,735	508,445
Due from banks and other financial institutions (ii)	1.89%	75,260	21,338	—	—	—	96,598
Loans and advances to customers	4.50%	1,118,824	1,921,112	195	496	—	3,040,627
Investments	3.10%	129,809	318,626	259,274	505,857	14,582	1,228,148
Property and equipment	N/A	—	—	—	—	75,124	75,124
Others	N/A	—	—	—	—	50,823	50,823
Total assets	3.91%	<u>1,802,603</u>	<u>2,261,076</u>	<u>259,469</u>	<u>506,353</u>	<u>170,264</u>	<u>4,999,765</u>
Liabilities:							
Due to banks and other financial institutions (iii)	1.80%	224,698	15,969	595	40	24,102	265,404
Due to customers	1.34%	3,475,796	1,236,429	330,532	3,896	68,544	5,115,197
Others	N/A	—	—	—	—	131,449	131,449
Total liabilities	1.37%	<u>3,700,494</u>	<u>1,252,398</u>	<u>331,127</u>	<u>3,936</u>	<u>224,095</u>	<u>5,512,050</u>
Interest rate mismatch	2.54%	<u>(1,897,891)</u>	<u>1,008,678</u>	<u>(71,658)</u>	<u>502,417</u>	<u>N/A</u>	<u>N/A</u>

(i) Effective interest rate represents the ratio of interest income/expense to average balance of interest bearing assets/liabilities.

(ii) Includes reverse repurchase agreements.

(iii) Includes due to a central bank and repurchase agreements.

(I) FINANCIAL INFORMATION (continued)

Notes to the Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

36. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(e) Interest rate risk (continued)

Group

December 31, 2005

	Effective interest rate (i)	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Non-interest- bearing	Total
Assets:							
Cash and balances with central banks	1.68%	523,788	—	—	—	30,085	553,873
Due from banks and other financial institutions (ii)	2.51%	186,768	34,484	145	—	—	221,397
Loans and advances to customers	5.11%	1,263,116	1,942,207	289	249	—	3,205,861
Investments	2.94%	212,131	524,125	1,341,246	222,883	5,424	2,305,809
Property and equipment	N/A	—	—	—	—	92,984	92,984
Others	N/A	—	—	—	—	76,207	76,207
Total assets	4.08%	2,185,803	2,500,816	1,341,680	223,132	204,700	6,456,131
Liabilities:							
Due to banks and other financial institutions (iii)	1.92%	240,540	24,186	485	—	—	265,211
Due to customers (iv)	1.48%	3,898,487	1,357,413	403,898	4,828	77,944	5,742,570
Debt issued	3.41%	9,000	—	16,076	13,000	—	38,076
Others	N/A	—	—	—	—	150,398	150,398
Total liabilities	1.50%	4,148,027	1,381,599	420,459	17,828	228,342	6,196,255
Interest rate mismatch	<u>2.58%</u>	<u>(1,962,224)</u>	<u>1,119,217</u>	<u>921,221</u>	<u>205,304</u>	<u>N/A</u>	<u>N/A</u>

(i) Effective interest rate represents the ratio of interest income/expense to average balance of interest bearing assets/liabilities.

(ii) Includes reverse repurchase agreements.

(iii) Includes due to a central bank and repurchase agreements.

(iv) Includes certificates of deposits.

(I) FINANCIAL INFORMATION (continued)

Notes to the Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

36. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

*(e) Interest rate risk (continued)**Bank*

December 31, 2005

	Effective interest rate (i)	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Non-interest- bearing	Total
Assets:							
Cash and balances with central banks	1.68%	523,667	—	—	—	29,905	553,572
Due from banks and other financial institutions (ii)	2.58%	181,427	37,589	145	—	—	219,161
Loans and advances to customers	5.11%	1,233,659	1,896,912	282	243	—	3,131,096
Investments	2.91%	198,489	530,006	1,341,073	223,649	11,800	2,305,017
Property and equipment	N/A	—	—	—	—	92,615	92,615
Others	N/A	—	—	—	—	73,364	73,364
Total assets	4.06%	<u>2,137,242</u>	<u>2,464,507</u>	<u>1,341,500</u>	<u>223,892</u>	<u>207,684</u>	<u>6,374,825</u>
Liabilities:							
Due to banks and other financial institutions (iii)	1.98%	243,463	20,553	527	—	—	264,543
Due to customers	1.46%	3,835,105	1,353,874	400,117	4,817	77,941	5,671,854
Debt issued	3.19%	9,000	—	13,000	13,000	—	35,000
Others	N/A	—	—	—	—	148,578	148,578
Total liabilities	1.49%	<u>4,087,568</u>	<u>1,374,427</u>	<u>413,644</u>	<u>17,817</u>	<u>226,519</u>	<u>6,119,975</u>
Interest rate mismatch	<u>2.57%</u>	<u>(1,950,326)</u>	<u>1,090,080</u>	<u>927,856</u>	<u>206,075</u>	<u>N/A</u>	<u>N/A</u>

(i) Effective interest rate represents the ratio of interest income/expense to average balance of interest bearing assets/liabilities.

(ii) Includes reverse repurchase agreements.

(iii) Includes due to a central bank and repurchase agreements.

(I) FINANCIAL INFORMATION (continued)

Notes to the Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

36. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

*(e) Interest rate risk (continued)**Group*

	June 30, 2006						Total
	Effective interest rate (i)	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Non-interest-bearing	
Assets:							
Cash and balances with central banks	1.72%	566,513	—	—	—	31,756	598,269
Due from banks and other financial institutions (ii)	3.27%	184,960	51,605	110	—	—	236,675
Loans and advances to customers	5.28%	1,240,046	2,134,849	198	249	—	3,375,342
Investments	2.64%	340,501	670,342	1,386,302	255,253	5,546	2,657,944
Property and equipment	N/A	—	—	—	—	88,709	88,709
Others	N/A	—	—	—	—	97,686	97,686
Total assets	3.96%	<u>2,332,020</u>	<u>2,856,796</u>	<u>1,386,610</u>	<u>255,502</u>	<u>223,697</u>	<u>7,054,625</u>
Liabilities:							
Due to banks and other financial institutions (iii) . . .	2.03%	343,161	35,007	672	—	—	378,840
Due to customers (iv)	1.63%	4,015,452	1,508,173	543,266	5,881	53,257	6,126,029
Debt issued	3.24%	9,000	—	15,987	13,000	—	37,987
Others	N/A	—	—	—	—	182,304	182,304
Total liabilities	1.66%	<u>4,367,613</u>	<u>1,543,180</u>	<u>559,925</u>	<u>18,881</u>	<u>235,561</u>	<u>6,725,160</u>
Interest rate mismatch	<u>2.30%</u>	<u>(2,035,593)</u>	<u>1,313,616</u>	<u>826,685</u>	<u>236,621</u>	<u>N/A</u>	<u>N/A</u>

(i) Effective interest rate represents the ratio of interest income/expense to average balance of interest bearing assets/liabilities, based on annualised figures.

(ii) Includes reverse repurchase agreements.

(iii) Includes repurchase agreements.

(iv) Includes certificates of deposits.

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****36. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)****(e) Interest rate risk (continued)****Bank**

	June 30, 2006						Total
	Effective interest rate (i)	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Non-interest-bearing	
Assets:							
Cash and balances with central banks	1.72%	566,315	—	—	—	31,529	597,844
Due from banks and other financial institutions (ii)	3.31%	165,003	52,609	110	—	—	217,722
Loans and advances to customers	5.28%	1,170,243	2,130,762	198	249	—	3,301,452
Investments	2.64%	338,107	672,784	1,381,801	255,446	11,784	2,659,922
Property and equipment	N/A	—	—	—	—	88,343	88,343
Others	N/A	—	—	—	—	94,372	94,372
Total assets	3.96%	<u>2,239,668</u>	<u>2,856,155</u>	<u>1,382,109</u>	<u>255,695</u>	<u>226,028</u>	<u>6,959,655</u>
Liabilities:							
Due to banks and other financial institutions (iii)	2.00%	347,954	35,801	681	—	—	384,436
Due to customers	1.60%	3,935,657	1,502,473	539,065	5,871	53,253	6,036,319
Debt issued	3.15%	9,000	—	13,000	13,000	—	35,000
Others	N/A	—	—	—	—	179,683	179,683
Total liabilities	1.64%	<u>4,292,611</u>	<u>1,538,274</u>	<u>552,746</u>	<u>18,871</u>	<u>232,936</u>	<u>6,635,438</u>
Interest rate mismatch	2.32%	<u>(2,052,943)</u>	<u>1,317,881</u>	<u>829,363</u>	<u>236,824</u>	N/A	N/A

(i) Effective interest rate represents the ratio of interest income/expense to average balance of interest bearing assets/liabilities, based on annualised figures.

(ii) Includes reverse repurchase agreements.

(iii) Includes repurchase agreements.

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****36. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)***(f) Fair value of financial instruments*

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties at an arm's length transaction. Subject to the existence of an active market, such as an authorised securities exchange, the market value is the best reflection of the fair values of financial instruments. As there is no available market value for part of the financial assets and liabilities held and issued by the Group, the discounted cash flow method or other valuation methods described below are adopted to determine the fair value of these assets and liabilities. However, the value determined by such methods is subject to the impact of future cash flows, time assumption and discount rates used.

Financial assets

The Group's financial assets mainly include cash, amounts due from central banks, banks and other financial institutions, loans and advances to customers, and investments.

Amounts due from central banks, banks and other financial institutions

Amounts due from central banks, banks and other financial institutions are mainly priced at market interest rates and mature within one year. Accordingly, their carrying values approximate their fair values.

Loans and advances to customers

Loans and advances to customers are mostly priced at floating rates close to the PBOC benchmark rates. Accordingly, their carrying values approximate their fair values.

Investments

Other than certain equity investments (note 17(c)) which are carried at cost, available-for-sale investments and investment securities at fair value through profit or loss are stated at fair value in the financial statements.

Financial liabilities

The Group's financial liabilities mainly include amounts due to a central bank, banks and other financial institutions, amounts due to customers, and subordinated bonds issued.

Amounts due to a central bank, banks and other financial institutions

Amounts due to a central bank, banks and other financial institutions are mainly priced at market interest rates and due within one year. Accordingly, their carrying values approximate their fair values.

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****36. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)***(f) Fair value of financial instruments (continued)**Amounts due to customers*

Amounts due to customers are mostly either savings or short term in nature. Accordingly, their carrying values approximate their fair values.

The following table summarises the carrying values and the fair values of receivables, held-to-maturity debt securities and subordinated bonds for which fair values are not presented or previously disclosed.

	Group		Bank	
	Carrying value	Fair value	Carrying value	Fair value
December 31, 2003				
Receivables	397,996	397,996	397,996	397,996
Held-to-maturity debt securities	363,827	363,299	359,558	359,533
December 31, 2004				
Receivables	397,996	397,996	397,996	397,996
Held-to-maturity debt securities	428,229	436,400	422,859	430,806
December 31, 2005				
Receivables	1,074,461	1,074,461	1,074,461	1,074,461
Held-to-maturity debt securities	882,704	887,584	887,677	892,856
Subordinated bonds	35,000	35,037	35,000	35,037
June 30, 2006				
Receivables	1,078,786	1,078,786	1,078,786	1,078,786
Held-to-maturity debt securities	1,079,366	1,082,834	1,085,241	1,088,608
Subordinated bonds	35,000	36,073	35,000	36,073

The following methods and assumptions have been used in estimating fair values:

- (i) Financial assets at fair values through profit or loss and available-for-sale investments are measured and stated at fair value by reference to the quoted market prices when available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or discounted cash flows.
- (ii) The fair values of held-to-maturity debt securities are determined with reference to the available market prices. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or discounted cash flows.
- (iii) The fair values of liquid assets and assets maturing within 12 months are assumed to be approximately equal to their carrying amounts. This assumption is applicable to liquid assets and the short term elements of all other financial assets.
- (iv) The fair values of fixed rate loans are estimated by comparing the market interest rates offered when the loans are granted, with the current market rates offered on similar loans. The fair values approximate their carrying amounts because the fixed rate loan rate is subject to renew annually with reference to current market rate. Changes in the credit

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****36. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)***(f) Fair value of financial instruments (continued)*

quality of loans within the portfolio are not taken into account in determining the gross fair values as the impact of credit risk is recognised separately by deducting the amount of impairment provision from both the carrying amount and the fair value.

- (v) The interest rate for customer deposits can be fixed or floating, depending on the types of products. The fair values of saving accounts and deposits without maturity are the amounts payable to customers on demand. The fair value of fixed-term deposits approximates to their carrying amount due to the short term nature of most fixed-term deposits.
- (vi) The receivables relating to the Restructuring of the Bank as set out in note 1(b) are non-transferrable. The fair value of these receivables is estimated on the basis of the stated interest rate and consideration of the relevant special clauses of the instrument evaluated in the absence of any other relevant observable market data, and approximate to their carrying amounts.

All of the above-mentioned assumptions and methods provide a consistent basis for the calculation of fair value of the Group's assets and liabilities. However, other institutions may use different assumptions and methods. Therefore, the fair values disclosed by different financial institutions may not be entirely comparable.

37. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS*(a) Acquisition of a subsidiary, net of cash acquired*

	Year ended December 31,			Six months ended June 30,	
	2003	2004	2005	2005 (Unaudited)	2006
Net assets acquired:					
Cash, balances with banks and other financial institutions and certificates of deposits held	—	7,099	—	—	—
Investment securities	—	2,563	—	—	—
Loans and advances to customers	—	15,602	—	—	—
Property and equipment (note 20)	—	31	—	—	—
Other assets	—	614	—	—	—
Due to banks and other financial institutions	—	(1,144)	—	—	—
Due to customers	—	(21,470)	—	—	—
Other liabilities and provisions	—	(426)	—	—	—
	—	2,869	—	—	—
Satisfied by:					
Cash	—	1,900	—	—	—
Shares issued by a subsidiary to a minority shareholder	—	938	—	—	—
Direct cost incurred for the acquisition	—	23	—	—	—
Investment cost payable	—	8	—	—	—
	—	2,869	—	—	—

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****37. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS (continued)****(a) Acquisition of a subsidiary, net of cash acquired (continued)**

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	Year ended December 31,			Six months ended June 30,	
	2003	2004	2005	2005 (Unaudited)	2006
Cash consideration paid	—	(1,900)	—	—	—
Direct cost incurred for the acquisition	—	(23)	—	—	—
Cash and balances with banks and other financial institutions acquired	—	1,238	—	—	—
Certificates of deposits held with original maturity within three months acquired	—	5,135	—	—	—
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	—	4,450	—	—	—

(b) Analysis of balances of cash and cash equivalents

	Notes	December 31,			June 30,	
		2003	2004	2005	2005 (Unaudited)	2006
Cash on hand	13	29,585	29,894	30,085	31,489	31,756
Balances with central banks other than restricted deposits	13	100,457	79,038	69,650	121,026	85,250
Nostro accounts with banks with original maturity of three months or less	14	8,814	6,745	8,095	10,563	15,601
Placements with banks and other financial institutions with original maturity of three months or less	14	17,883	21,996	88,080	33,062	66,362
Reverse repurchase agreements with original maturity of three months or less	15	55,739	14,733	81,302	27,181	92,554
Investments (i)		30,142	15,613	17,212	73,904	175,197
		<u>242,620</u>	<u>168,019</u>	<u>294,424</u>	<u>297,225</u>	<u>466,720</u>

(i) Investments included in cash and cash equivalents are analysed as follows:

	Notes	December 31,			June 30,	
		2003	2004	2005	2005 (Unaudited)	2006
Debt securities at fair value through profit or loss	17(d)	25,617	13,449	18,341	21,831	50,429
Available-for-sale debt securities	17(c)	246,824	382,765	324,879	487,940	443,817
		<u>272,441</u>	<u>396,214</u>	<u>343,220</u>	<u>509,771</u>	<u>494,246</u>
Balances with original maturity over three months		<u>(242,299)</u>	<u>(380,601)</u>	<u>(326,008)</u>	<u>(435,867)</u>	<u>(319,049)</u>
		<u>30,142</u>	<u>15,613</u>	<u>17,212</u>	<u>73,904</u>	<u>175,197</u>

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****37. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS (continued)***(c) Significant non-cash transactions*

	Year ended December 31,			Six months ended June 30,	
	2003	2004	2005	2005 (Unaudited)	2006
Disposal of loss category loans and other impaired assets (note 1(b)(ii))	—	—	246,000	246,000	—
Disposal of doubtful category loans and subscription of a special PBOC bill (note 1(b)(iii))	—	—	430,465	430,465	—
Capitalisation of amount payable to MOF	—	—	—	—	8,028
Disposal of doubtful category loans for settlement of amount due to a central bank	—	—	23,537	23,537	—
Revaluation of property and equipment	—	—	22,697	22,697	—
Capital injection in the form of land use rights (note 1(b)(iv))	—	—	19,906	—	—
Interest income and expense in relation to special government bond (note 17(a)(ii)) . . .	6,120	6,120	5,610	3,060	—
Transfer of capital to Huarong	64	—	—	—	—
	<u>64</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

38. SEGMENT INFORMATION

Segment information is presented in respect of the Group's business and geographical segments. Historically, the Group managed its business primarily along geographical locations. During the Relevant Periods, the Group entered into a transitional phase of reorganisation in which it managed its business both along business segments, which include corporate banking, personal banking and treasury operations, and geographical segments. Accordingly, both business segment information and geographical segment information are presented as the Group's primary segment reporting formats.

The measurement of segment assets and liabilities and segment revenues and results is based on the Group's accounting policies.

Transactions between segments are mainly provision of funding to and from individual segments. These transactions are conducted on terms determined with reference to the average cost of funding and have been reflected in the performance of each segment. Net interest income and expenses arising on internal charges and transfer pricing adjustments are referred to as "internal net interest income/expense". Interest income and expenses earned from third parties are referred to as "external net interest income/expense".

Segment revenues, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****38. SEGMENT INFORMATION (continued)***(a) Business segments*

The Group comprises the following main business segments:

Corporate banking

Corporate banking segment covers the provision of financial products and services to corporations, government agencies and financial institutions. The products and services include corporate loans, trade financing, deposit-taking activities and various types of corporate intermediary services.

Personal banking

Personal banking segment covers the provision of financial products and services to individual customers. The products and services include personal loans, deposit-taking activities, card business, personal wealth management services and various types of personal intermediary services.

Treasury operations

Treasury operations segment covers the Group's treasury operations. The treasury conducts money market or repurchase transactions, debt instruments investments, and holding of derivative positions, for its own accounts or on behalf of customers.

Others

This represents equity investments and head office assets, liabilities, income and expenses that are not directly attributable to a segment or cannot be allocated on a reasonable basis.

(I) FINANCIAL INFORMATION (continued)

Notes to the Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

38. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

	Corporate banking	Personal banking	Treasury operations	Others	Total
Year ended December 31, 2003					
External net interest income/(expense)	105,956	(20,785)	37,537	—	122,708
Internal net interest income/(expense)	(31,839)	49,965	(18,126)	—	—
Net fee and commission income	2,324	3,389	(89)	—	5,624
Other operating income	452	86	1,244	2,670	4,452
Operating income	76,893	32,655	20,566	2,670	132,784
Operating expenses	(25,816)	(22,210)	(12,795)	(1,754)	(62,575)
Provisions for impairment losses on					
—Loans and advances to customers	(34,395)	(519)	—	—	(34,914)
—Others	(484)	—	(795)	(100)	(1,379)
Operating profit	16,198	9,926	6,976	816	33,916
Share of profits and losses of associates	—	—	—	(32)	(32)
Profit before tax	16,198	9,926	6,976	784	33,884
Income tax expense					(11,292)
Profit for the year					22,592
Other segment information:					
Depreciation	3,845	3,754	950	105	8,654
Amortisation	403	264	81	4	752
Capital expenditure	3,998	3,903	988	110	8,999
December 31, 2003					
Segment assets	2,432,462	458,144	1,624,961	41,110	4,556,677
Investments in associates	—	—	—	274	274
Total assets	2,432,462	458,144	1,624,961	41,384	4,556,951
Segment liabilities	2,153,880	2,618,627	275,364	48,214	5,096,085
Credit commitments	346,798	—	—	—	346,798

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****38. SEGMENT INFORMATION (continued)****(a) Business segments (continued)**

	<u>Corporate banking</u>	<u>Personal banking</u>	<u>Treasury operations</u>	<u>Others</u>	<u>Total</u>
Year ended December 31, 2004					
External net interest income/(expense)	107,023	(16,109)	43,814	—	134,728
Internal net interest income/(expense)	(31,211)	51,381	(20,170)	—	—
Net fee and commission income	3,445	4,860	(97)	—	8,208
Other operating income	1,762	137	766	2,358	5,023
Operating income	81,019	40,269	24,313	2,358	147,959
Operating expenses	(26,427)	(21,816)	(12,448)	(1,948)	(62,639)
Provisions for impairment losses on					
— Loans and advances to customers	(29,500)	(1,011)	—	—	(30,511)
— Others	(348)	—	—	—	(348)
Operating profit	24,744	17,442	11,865	410	54,461
Share of profits and losses of associates	—	—	—	(50)	(50)
Profit before tax	24,744	17,442	11,865	360	54,411
Income tax expense					(23,193)
Profit for the year					31,218
Other segment information:					
Depreciation	4,033	3,849	986	109	8,977
Amortisation	380	249	77	4	710
Capital expenditure	3,760	3,589	919	102	8,370
December 31, 2004					
Segment assets	2,683,392	544,365	1,816,645	24,805	5,069,207
Investments in associates	—	—	—	117	117
Total assets	2,683,392	544,365	1,816,645	24,922	5,069,324
Segment liabilities	2,392,703	2,856,883	288,273	39,510	5,577,369
Credit commitments	393,548	—	—	—	393,548

(I) FINANCIAL INFORMATION (continued)

Notes to the Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

38. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

	Corporate banking	Personal banking	Treasury operations	Others	Total
Year ended December 31, 2005					
External net interest income/(expense)	112,255	(21,157)	62,505	—	153,603
Internal net interest income/(expense)	(33,275)	68,710	(35,435)	—	—
Net fee and commission income	4,666	5,993	(113)	—	10,546
Other operating income	3,836	135	1,339	2,161	7,471
Operating income	87,482	53,681	28,296	2,161	171,620
Operating expenses	(35,360)	(29,657)	(13,974)	(2,594)	(81,585)
Provisions for impairment losses on					
— Loans and advances to customers	(24,649)	(1,940)	—	—	(26,589)
— Others	(95)	—	(41)	(289)	(425)
Operating profit/(loss)	27,378	22,084	14,281	(722)	63,021
Share of profits and losses of associates	—	—	—	5	5
Profit/(loss) before tax	27,378	22,084	14,281	(717)	63,026
Income tax expense					(25,007)
Profit for the year					38,019
Other segment information:					
Depreciation	4,377	4,273	1,082	120	9,852
Amortisation	381	249	77	5	712
Capital expenditure	4,078	3,981	1,008	111	9,178
December 31, 2005					
Segment assets	2,772,700	566,087	3,086,874	30,350	6,456,011
Investments in associates	—	—	—	120	120
Total assets	2,772,700	566,087	3,086,874	30,470	6,456,131
Segment liabilities	2,676,927	3,142,632	311,181	65,515	6,196,255
Credit commitments	365,631	—	—	—	365,631

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****38. SEGMENT INFORMATION (continued)*****(b) Geographical segments***

The Group operates principally in the PRC with branches located in 35 provinces, autonomous regions and municipalities directly under the central government of the PRC. The Group also has branches and subsidiaries operating outside Mainland China in Hong Kong, Macau, Singapore, Frankfurt, Luxemburg, Seoul, Busan, Tokyo, London and Almaty.

In presenting information on the basis of geographical segments, operating income and expense are based on the location of the branches that generated the revenue and incurred the expense. Segment assets and capital expenditure are allocated based on the geographical locations of the underlying assets.

The geographical segment report is based on the following geographical segments:

- (i) Head Office: including the head office business division;
- (ii) Yangtze River Delta: including Shanghai, Zhejiang, Jiangsu and Ningbo;
- (iii) Pearl River Delta: including Guangdong, Shenzhen, Fujian and Xiamen;
- (iv) Bohai Rim: including Beijing, Tianjin, Hebei, Shandong and Qingdao;
- (v) Central China: including Shanxi, Henan, Hubei, Hunan, Anhui, Jiangxi and Hainan;
- (vi) Western China: including Chongqing, Sichuan, Guizhou, Yunnan, Guangxi, Shaanxi, Gansu, Qinghai, Ningxia, Xinjiang and Inner Mongolia;
- (vii) Northeastern China: including Liaoning, Heilongjiang, Jilin and Dalian; and
- (viii) Overseas and others: branches located outside Mainland China including Hong Kong, Macau, Singapore, Seoul, Busan, Tokyo, Frankfurt, Luxemburg; and subsidiaries including ICBC (Asia), ICIC, ICEA, ICBC (London), ICBC (Almaty) and ICBC Credit Suisse Asset Management.

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****38. SEGMENT INFORMATION (continued)****(b) Geographical segments (continued)**

	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Overseas	Eliminations	Total
Year ended December 31, 2003										
External net interest income	43,350	18,907	13,086	9,128	14,056	15,745	7,312	1,124	—	122,708
Internal net interest income/(expense) . . .	(28,123)	5,399	3,730	15,795	1,433	2,351	(115)	(470)	—	—
Net fee and commission income	142	1,010	677	1,074	967	774	404	576	—	5,624
Other operating income	708	1,106	779	391	558	569	215	126	—	4,452
Operating income	16,077	26,422	18,272	26,388	17,014	19,439	7,816	1,356	—	132,784
Operating expenses	(8,573)	(9,040)	(7,473)	(10,029)	(9,813)	(11,819)	(6,132)	304	—	(62,575)
Provisions for impairment losses on										
—Loans and advances to customers	(136)	(4,939)	(2,896)	(11,835)	(1,576)	(6,810)	(6,369)	(353)	—	(34,914)
—Others	—	(794)	(109)	(194)	(58)	(172)	(48)	(4)	—	(1,379)
Operating profit/(loss)	7,368	11,649	7,794	4,330	5,567	638	(4,733)	1,303	—	33,916
Share of profits and losses of associates	2	—	—	—	—	—	—	(34)	—	(32)
Profit/(loss) before tax	7,370	11,649	7,794	4,330	5,567	638	(4,733)	1,269	—	33,884
Income tax expense	—	—	—	—	—	—	—	—	—	(11,292)
Profit for the year	—	—	—	—	—	—	—	—	—	22,592
Other segment information:										
Depreciation	674	1,153	1,084	1,456	1,488	1,795	958	46	—	8,654
Amortisation	164	94	69	91	123	83	83	45	—	752
Capital expenditure	707	1,363	890	1,738	1,619	1,811	830	41	—	8,999
December 31, 2003										
Segment assets	1,577,396	977,919	638,682	1,215,966	600,822	667,930	321,383	140,317	(1,611,546)	4,528,869
Investments in associates	102	—	—	—	—	—	—	172	—	274
Unallocated assets	—	—	—	—	—	—	—	—	—	27,808
Total assets	—	—	—	—	—	—	—	—	—	4,556,951
Segment liabilities	1,497,893	1,006,075	726,036	1,304,695	752,940	789,220	492,509	138,179	(1,611,546)	5,096,001
Unallocated liabilities	—	—	—	—	—	—	—	—	—	84
Total liabilities	—	—	—	—	—	—	—	—	—	5,096,085
Credit commitments	35,486	97,039	31,967	40,081	36,005	44,718	11,318	50,184	—	346,798

(I) FINANCIAL INFORMATION (continued)

Notes to the Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

38. SEGMENT INFORMATION (continued)

(b) Geographical segments (continued)

	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Overseas	Eliminations	Total
Year ended December 31, 2004										
External net interest income . . .	47,337	23,337	14,141	10,587	13,944	16,539	7,281	1,562	—	134,728
Internal net interest income/ (expense)	(33,355)	5,666	4,178	17,257	2,929	3,354	369	(398)	—	—
Net fee and commission income	312	1,323	1,130	1,677	1,319	1,213	576	658	—	8,208
Other operating income	419	776	1,317	555	595	670	507	184	—	5,023
Operating income	14,713	31,102	20,766	30,076	18,787	21,776	8,733	2,006	—	147,959
Operating expenses	(9,463)	(9,398)	(7,845)	(9,676)	(9,765)	(10,905)	(5,575)	(12)	—	(62,639)
Provisions for impairment losses on —Loans and advances to customers	(488)	(1,102)	(4,576)	(5,776)	(2,998)	(7,923)	(7,410)	(238)	—	(30,511)
—Others	—	(67)	(81)	(44)	(41)	(78)	(34)	(3)	—	(348)
Operating profit/(loss)	4,762	20,535	8,264	14,580	5,983	2,870	(4,286)	1,753	—	54,461
Share of profits and losses of associates	(6)	—	—	—	—	—	—	(44)	—	(50)
Profit/(loss) before tax	4,756	20,535	8,264	14,580	5,983	2,870	(4,286)	1,709	—	54,411
Income tax expense	—	—	—	—	—	—	—	—	—	(23,193)
Profit for the year	—	—	—	—	—	—	—	—	—	31,218
Other segment information:										
Depreciation	900	1,139	1,202	1,446	1,513	1,785	929	63	—	8,977
Amortisation	165	92	62	92	135	83	71	10	—	710
Capital expenditure	1,451	1,198	742	1,346	1,331	1,469	599	234	—	8,370
December 31, 2004										
Segment assets	1,782,816	1,085,369	693,732	1,371,658	687,556	758,846	326,848	163,375	(1,809,798)	5,060,402
Investments in associates	87	—	—	—	—	—	—	30	—	117
Unallocated assets	—	—	—	—	—	—	—	—	—	8,805
Total assets	—	—	—	—	—	—	—	—	—	5,069,324
Segment liabilities	1,948,871	1,059,474	757,619	1,384,485	782,481	826,385	468,050	157,010	(1,809,798)	5,574,577
Unallocated liabilities	—	—	—	—	—	—	—	—	—	2,792
Total liabilities	—	—	—	—	—	—	—	—	—	5,577,369
Credit commitments	68,093	128,023	36,855	24,959	19,415	66,723	12,077	37,403	—	393,548

(I) FINANCIAL INFORMATION (continued)

Notes to the Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

38. SEGMENT INFORMATION (continued)

(b) Geographical segments (continued)

	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Overseas	Eliminations	Total
Year ended December 31, 2005										
External net interest income . . .	65,703	27,110	14,259	8,939	13,776	16,029	5,297	2,490	—	153,603
Internal net interest income/ (expense)	(49,391)	7,267	6,168	22,256	5,504	6,105	2,708	(617)	—	—
Net fee and commission income	531	2,194	1,514	2,125	1,494	1,538	526	624	—	10,546
Other operating income	1,985	1,719	619	1,061	249	1,067	64	707	—	7,471
Operating income	18,828	38,290	22,560	34,381	21,023	24,739	8,595	3,204	—	171,620
Operating expenses	(10,658)	(11,838)	(8,734)	(12,418)	(13,908)	(15,657)	(7,035)	(1,337)	—	(81,585)
Provisions for impairment losses on										
—Loans and advances to customers	(20)	60	(4,065)	(8,735)	(6,549)	(3,078)	(4,528)	326	—	(26,589)
—Others	—	159	(307)	105	(306)	15	(91)	—	—	(425)
Operating profit/(loss)	8,150	26,671	9,454	13,333	260	6,019	(3,059)	2,193	—	63,021
Share of profits and losses of associates	5	—	—	—	—	—	—	—	—	5
Profit/(loss) before tax	8,155	26,671	9,454	13,333	260	6,019	(3,059)	2,193	—	63,026
Income tax expense	—	—	—	—	—	—	—	—	—	(25,007)
Profit for the year	—	—	—	—	—	—	—	—	—	38,019
Other segment information:										
Depreciation	1,016	1,436	1,135	1,580	1,720	1,864	1,039	62	—	9,852
Amortisation	129	88	58	88	157	72	68	52	—	712
Capital expenditure	727	1,692	820	2,194	1,554	1,354	685	152	—	9,178
December 31, 2005										
Segment assets	3,272,655	1,280,370	840,838	1,643,236	838,312	902,276	492,761	180,498	(2,994,935)	6,456,011
Investments in associates	90	—	—	—	—	—	—	30	—	120
Total assets	3,272,745	1,280,370	840,838	1,643,236	838,312	902,276	492,761	180,528	(2,994,935)	6,456,131
Segment liabilities	3,057,010	1,250,263	841,208	1,622,781	838,001	898,225	498,946	168,697	(2,994,935)	6,180,196
Unallocated liabilities	—	—	—	—	—	—	—	—	—	16,059
Total liabilities	—	—	—	—	—	—	—	—	—	6,196,255
Credit commitments	37,473	73,571	52,094	50,767	27,004	49,847	8,913	65,962	—	365,631

(I) FINANCIAL INFORMATION (continued)

Notes to the Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

38. SEGMENT INFORMATION (continued)

(b) Geographical segments (continued)

	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Overseas	Eliminations	Total
Six months ended June 30, 2005										
(unaudited)										
External net interest income	27,825	12,233	6,809	5,892	7,161	7,610	3,043	1,152	—	71,725
Internal net interest income/(expense) . . .	(19,209)	3,187	2,354	9,496	1,920	2,185	339	(272)	—	—
Net fee and commission income	282	960	660	904	779	708	268	306	—	4,867
Other operating income	1,889	433	509	514	(36)	362	110	719	—	4,500
Operating income	10,787	16,813	10,332	16,806	9,824	10,865	3,760	1,905	—	81,092
Operating expenses	(5,418)	(4,961)	(3,603)	(5,299)	(5,358)	(5,766)	(2,575)	(984)	—	(33,964)
Provisions for impairment losses on										
—Loans and advances to customers	(158)	949	(913)	(5,705)	(2,933)	(2,066)	(1,029)	297	—	(11,558)
—Others	—	(75)	(28)	10	83	(133)	(22)	—	—	(165)
Operating profit	5,211	12,726	5,788	5,812	1,616	2,900	134	1,218	—	35,405
Share of profits and losses of associates	—	—	—	—	—	—	—	—	—	—
Profit before tax	5,211	12,726	5,788	5,812	1,616	2,900	134	1,218	—	35,405
Income tax expense	—	—	—	—	—	—	—	—	—	(9,957)
Profit for the period	—	—	—	—	—	—	—	—	—	25,448
Other segment information:										
Depreciation	581	679	524	781	715	833	433	25	—	4,571
Amortisation	52	37	23	35	64	29	28	20	—	288
Capital expenditure	297	417	252	722	527	230	136	60	—	2,641

(I) FINANCIAL INFORMATION (continued)

Notes to the Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

38. SEGMENT INFORMATION (continued)

(b) Geographical segments (continued)

	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Overseas	Eliminations	Total
Six months ended										
June 30, 2006										
External net interest income	36,999	13,122	5,855	2,724	6,222	7,208	2,095	2,283	—	76,508
Internal net interest income/(expense) . .	(30,637)	4,070	3,748	13,103	3,870	4,074	2,286	(514)	—	—
Net fee and commission income	375	1,713	1,112	1,371	1,229	1,149	535	382	—	7,866
Other operating income	857	178	(24)	(21)	260	(52)	3	175	—	1,376
Operating income	7,594	19,083	10,691	17,177	11,581	12,379	4,919	2,326	—	85,750
Operating expenses	(3,723)	(5,909)	(4,097)	(5,581)	(5,670)	(6,135)	(2,867)	(714)	—	(34,696)
Provisions for impairment losses on										
—Loans and advances to customers	(202)	(344)	(1,002)	(2,898)	(3,541)	(2,609)	(967)	(82)	—	(11,645)
—Others	—	(13)	(57)	(46)	(211)	(172)	(60)	(14)	—	(573)
Operating profit	3,669	12,817	5,535	8,652	2,159	3,463	1,025	1,516	—	38,836
Share of profits and losses of associates	4	—	—	—	—	—	—	1	—	5
Profit before tax	3,673	12,817	5,535	8,652	2,159	3,463	1,025	1,517	—	38,841
Income tax expense										(13,199)
Profit for the period										25,642
Other segment information:										
Depreciation	425	769	610	830	859	973	558	29	—	5,053
Amortisation	158	49	21	68	84	78	28	27	—	513
Capital expenditure	544	252	71	283	261	232	58	48	—	1,749
June 30, 2006										
Segment assets	3,717,335	1,392,699	903,721	1,772,173	887,294	940,106	509,267	192,494	(3,260,589)	7,054,500
Investments in associates	96	—	—	—	—	—	—	29	—	125
Total assets	3,717,431	1,392,699	903,721	1,772,173	887,294	940,106	509,267	192,523	(3,260,589)	7,054,625
Segment liabilities	3,399,288	1,382,976	901,525	1,767,281	892,555	947,147	515,379	166,516	(3,260,589)	6,712,078
Unallocated liabilities										13,082
Total liabilities										6,725,160
Credit commitments	36,910	152,004	70,467	124,205	36,207	48,812	13,896	39,891	—	522,392

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****39. RELATED PARTY DISCLOSURES**

In addition to those disclosed elsewhere in the Financial Information, the Group had the following transactions with related parties during the Relevant Periods.

(a) The MOF

During the year 2005, ICBC completed the Restructuring under the direction of the State Council as detailed in note 1(b) to the Financial Information. As at December 31, 2005 and June 30, 2006, the MOF directly owned 50% and 43.28%, respectively, of the issued share capital of the Bank.

The Group enters into banking transactions with the MOF in its normal course of business, including the subscription and redemption of investment securities issued by the MOF, as follows:

	December 31,			June 30,	
	2003	2004	2005	2006	
Balances outstanding at end of the year/period:					
The PRC government bonds and special government bond	339,200	344,497	365,823	371,475	
MOF receivable (note 17(a)(iii))	—	—	246,000	246,000	
Payable to MOF (note 27)	—	—	8,028	—	
	—	—	8,028	—	
	Year ended December 31,			Six months ended June 30,	
	2003	2004	2005	2005 (Unaudited)	2006
Transactions during the year/period:					
Subscription of PRC government bonds	124,669	115,638	86,445	46,756	60,475
Redemption of PRC government bonds ..	15,714	25,805	24,184	8,802	19,070
Interest income on bonds (Note)	14,310	14,228	15,165	7,278	5,473
Expenses relating to special government bond (notes 6 and 17(a)(ii))	6,120	6,120	5,610	3,060	—
Interest income from MOF receivable (note 17(a)(iii))	—	—	3,895	145	3,690
	—	—	3,895	145	3,690

Note: The interest rates on the bonds issued by the MOF ranged approximately from 1.58% to 11.83% per annum during the Relevant Periods.

The MOF is a ministry under the State Council, primarily responsible for, among others, state fiscal revenues and expenditures, and taxation policies. Enterprises or legal entities under the control or supervision of the MOF are mainly financial institutions, government departments or agencies. The directors are of the view that transactions with enterprises or legal entities under the control or supervision of the MOF are conducted in the ordinary course of business. With due regard to the substance of the relationship, the directors are of the opinion that none of these transactions are considered material related party transactions that require separate disclosure.

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****39. RELATED PARTY DISCLOSURES (continued)****(b) Huijin**

Huijin was incorporated on December 16, 2003 as a wholly state-owned investment company with the approval of the State Council. It was established for the purpose of holding certain equity investments on behalf of the State Council, and to represent the Government in exercising its investor's rights and obligations in certain financial institutions. As at December 31, 2005 and June 30, 2006, Huijin directly owned 50% and 43.28%, respectively, of the issued share capital of the Bank.

The Group entered into the following transactions with Huijin in relation to the Restructuring:

- (i) In April 2005, the Government injected US\$15,000 million of cash into the Bank through Huijin under the direction of the State Council (note 1(b)(i)).
- (ii) In April 2005, the Bank entered into an agreement with Huijin, pursuant to which the Bank purchased from Huijin an option to sell to Huijin a maximum of US\$12,000 million in exchange for RMB at a pre-determined exchange rate of US\$1 to RMB8.2765. The option is exercisable in 2008 in 12 equal monthly instalments. The Group will pay a total option premium of RMB2,979 million to Huijin by 12 equal monthly instalments in 2008. The purpose of the option is to economically hedge against the Bank's currency risk arising from part of the aforementioned capital injection.

The Bank values the option using the Garman Kohlhagen Option model, which is commonly used by market participants to value currency options. The parameters used for the valuation include relevant market interest rates of RMB and US\$, the spot exchange rates of RMB against US\$ sourced from the PBOC, and average historical foreign exchange volatility.

The fair values of the option as at December 31, 2005 and June 30, 2006 were RMB7,335 million and RMB8,125 million, respectively, which are included in other assets as set out in note 22 to the Financial Information. The premium payable in respect of the option was stated at its discounted value of RMB2,767 million and RMB2,808 million as at December 31, 2005 and June 30, 2006, respectively, and is included under other liabilities as set out in note 27 to the Financial Information. The related impact on the consolidated income statements was RMB4,226 million, RMB656 million and RMB749 million for the year ended December 31, 2005 and for the six months ended June 30, 2005 (unaudited) and 2006, respectively.

In addition, the Group also entered into banking transactions with Huijin in the normal course of business under normal commercial terms and at the market rates. The balances outstanding at the balance sheet dates with Huijin are as follows:

	December 31,			June 30,
	2003	2004	2005	2006
Deposits from customers	—	—	—	<u>5,627</u>

(I) FINANCIAL INFORMATION (continued)

Notes to the Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

39. RELATED PARTY DISCLOSURES (continued)

(b) Huijin (continued)

The interest rate ranges for the year/period are as follows:

	Year ended December 31,			Six months ended June 30,	
	2003	2004	2005	2005 (Unaudited)	2006
	%	%	%	%	%
Deposits from customers	—	—	—	—	0-0.7

Huijin has controlling equity interests in certain other banks and financial institutions. The Group enters into transactions with these banks and financial institutions in the ordinary course of its business on normal commercial terms. The directors consider that these banks and financial institutions are competitors of the Group. Significant transactions during the Relevant Periods with these banks and financial institutions subsequent to Huijin becoming a shareholder of the Bank, and the corresponding balances outstanding as at the respective balance sheet dates are as follows:

	December 31,			June 30,
	2003	2004	2005	2006
Balance outstanding at end of the year/period:				
Debt securities issued by these banks and financial institutions	—	—	7,497	10,369
Due from these banks and financial institutions	—	—	13,591	11,889
Due to these banks and financial institutions	—	—	12,055	26,903

The interest rate ranges for the year/period are as follows:

	Year ended December 31,			Six months ended June 30,	
	2003	2004	2005	2005 (Unaudited)	2006
	%	%	%	%	%
Interest rate ranges for the year/period:					
Debt securities issued by these banks and financial institutions	—	—	4.3-8.3	—	2.5-8.3
Due from these banks and financial institutions	—	—	0-4.7	—	0-5.8
Due to these banks and financial institutions	—	—	0-5.0	—	0-5.4

Interest rates included in the above ranges vary across product groups and transactions depending on maturity, credit risk of counterparty and currency. In particular, given local market conditions, the spread of certain significant or long dated transactions can vary across the market.

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****39. RELATED PARTY DISCLOSURES (continued)***(c) Shareholder with significant influence*

As at June 30, 2006, Goldman Sachs directly owned 5.75% of the issued share capital of the Bank. In the opinion of the directors, Goldman Sachs is considered to have significant influence over the Bank because of its nominated representative serving on the Bank's board of directors.

The Bank has entered into a strategic cooperation agreement with Goldman Sachs. The term of this agreement is five years, beginning on January 27, 2006. The strategic cooperation with Goldman Sachs aims to leverage the respective strengths of Goldman Sachs and the Bank to enhance the Group's businesses in seven areas, including corporate governance, risk management, treasury business, asset management, corporate and investment banking, non-performing loan disposal and training.

In the opinion of the directors, other than the above mentioned strategic cooperation, there is no significant transaction conducted between Goldman Sachs and the Bank for the period from April 28, 2006 to June 30, 2006 and no material balances as at June 30, 2006 required separate disclosures.

(d) Associates

Balances with associates are as follows:

	December 31,			June 30,
	2003	2004	2005	2006
Due to associates	27	37	76	22

(e) Key management personnel

Key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Group, directly or indirectly, including members of the board of directors, supervisory board and executive officers.

The aggregate of the compensation in respect of the directors and supervisors is disclosed in note 7 to the Financial Information. The executive officers' annual compensation during the Relevant Periods and the six months ended June 30, 2005 (unaudited) is as follows:

	Year ended December 31,			Six months ended June 30,	
	2003	2004	2005	2005 (Unaudited)	2006
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Salaries and other emoluments	414	913	2,956	577	674
Discretionary bonuses	1,609	2,371	2,999	1,495	1,833
Contributions to defined contribution plans	307	388	1,315	264	240
	<u>2,330</u>	<u>3,672</u>	<u>7,270</u>	<u>2,336</u>	<u>2,747</u>

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****39. RELATED PARTY DISCLOSURES (continued)*****(e) Key management personnel (continued)***

Further details of directors' and supervisors' emoluments are included in note 7 to the Financial Information.

Companies or corporations in which the key management of the Group, or their close relatives, are shareholders or key management personnel who are able to exercise control or significant influence, are also considered as related parties of the Group.

In the opinion of the directors, the transactions between the Group and the aforementioned parties were conducted on terms and conditions similar to those offered to other unrelated customers. Since the transaction volume was not significant, and the transactions were not material, no further disclosure has been made.

(f) Transactions with other state-owned entities in Mainland China

The Group operates in an economic environment predominated by enterprises directly or indirectly owned and/or controlled by the Government through its numerous authorities, affiliates or other organisations (collectively "state-owned entities"). During the Relevant Periods and the six months ended June 30, 2005 (unaudited), the Group has transactions with state-owned entities including, but not limited to, lending and deposit taking, taking and placing of inter-bank balances, entrusted lending, provision of intermediary services, the sale, purchase, underwriting and redemption of bonds issued by other state-owned entities, and the sale, purchase, and leasing of property and other assets.

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 pricing policy for products and services and such pricing policies do not depend on whether or not the customers are state-owned entities. Having due regard to the substance of the relationship, the directors are of the opinion that none of these transactions are considered material related party transactions that require separate disclosure.

40. POST BALANCE SHEET EVENTS

Subsequent to June 30, 2006, the following significant events occurred:

(a) Profit appropriation

Pursuant to the resolutions passed in the extraordinary general meetings of shareholders held on July 31, 2006 and September 22, 2006 respectively, the arrangement of profit appropriation was approved as follows:

- (i) in respect of the six months ended June 30, 2006, a dividend would be distributed to the existing shareholders based on the lower of the distributable profit (after any appropriations to the statutory surplus reserve and general reserve) of the Bank as

(I) FINANCIAL INFORMATION (continued)**Notes to the Financial Information****(Expressed in millions of Renminbi, unless otherwise stated)****40. POST BALANCE SHEET EVENTS (continued)**

determined under the accounting principles generally accepted in the PRC and IFRS. Accordingly, a dividend in the aggregate amount of RMB18,593 million is proposed.

- (ii) in respect of the period from July 1, 2006 to the date immediately preceding the completion of the Bank's proposed H shares offering on SEHK (the "Global Offering") or A shares offering on the Shanghai Stock Exchange (the "A Share Offering"), whichever is earlier, (the "Special Dividend Period"), a cash dividend would be declared to the existing shareholders, in an aggregate amount equal to the distributable profits (after appropriations to the statutory surplus reserve and general reserve) of the Bank for the Special Dividend Period, as determined under the generally accepted accounting principles in the PRC or IFRS, whichever is lower. Such amount will be determined through a special audit of the Bank's results for the period from July 1, 2006 to the end of the month in which the Global Offering or the A Share Offering is completed, whichever is earlier, ("Special Audit Period") prorated to the actual number of days in the Special Dividend Period. The chairman of the board of directors or the president of the Bank may, individually or jointly, make adjustment to the ending date of the Special Audit Period.

(b) Share appreciation rights plan

Pursuant to the resolution of an extraordinary general meeting of shareholders dated July 31, 2006, the Bank has adopted a share appreciation rights plan. It provides that eligible participants including directors, supervisors, senior management and other key personnel designated by the board will be granted share appreciation rights, 25% of which will become exercisable each year after the third anniversary from the date of the grant with all exercisable after seven years from the date of the grant. Share appreciation rights will be valid for ten years from the date of grant. Share appreciation rights will be granted and exercised based on price of the Bank's H shares. The price of shares represented by share appreciation rights granted for the first time shall be determined pursuant to fair market price after the 30th trading day following the completion of the Global Offering of the Bank. Eligible participants will be entitled to receive an amount equal to the difference, if any, between (i) the market price of the Bank's H shares on the date of exercise and (ii) a price that is not lower than the closing market price of the Bank's H shares on the date of grant (trading day) or the average closing market price of the Bank's H shares during the five trading days immediately preceding the date of grant. Share appreciation rights will be granted for the first time in the first six months following the completion of Global Offering of the Bank. Total shares represented by share appreciation rights granted for the first time in the first six months after the Global Offering of the Bank will not exceed 0.5% of the Bank's total share capital and the total shares represented by all share appreciation rights granted will be limited in the amount stated in the relevant regulations of the State.

Save as aforesaid, no other significant events took place subsequent to June 30, 2006.

(II) DIRECTOR'S AND SUPERVISORS' REMUNERATION

Save as disclosed in the Financial Information, no remuneration has been paid or is payable in respect of any of the Relevant Periods and the six months ended June 30, 2005 (unaudited) by the Bank, or any of the other companies now comprising the Group, to the directors and supervisors of the Bank. Under the arrangements currently in force, the estimated amount of directors' and supervisors' fees and other emoluments payable to the directors and supervisors of the Bank for the year ending December 31, 2006 will be approximately RMB7,650,000, excluding discretionary bonuses payable under the directors' and supervisors' service contracts.

(III) SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Bank or any of the companies now comprising the Group in respect of any period subsequent to June 30, 2006.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong