



**INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED**

(A joint stock limited company incorporated in the People's Republic of China with limited liability)  
Stock Code: 1398



**2006** Annual Report

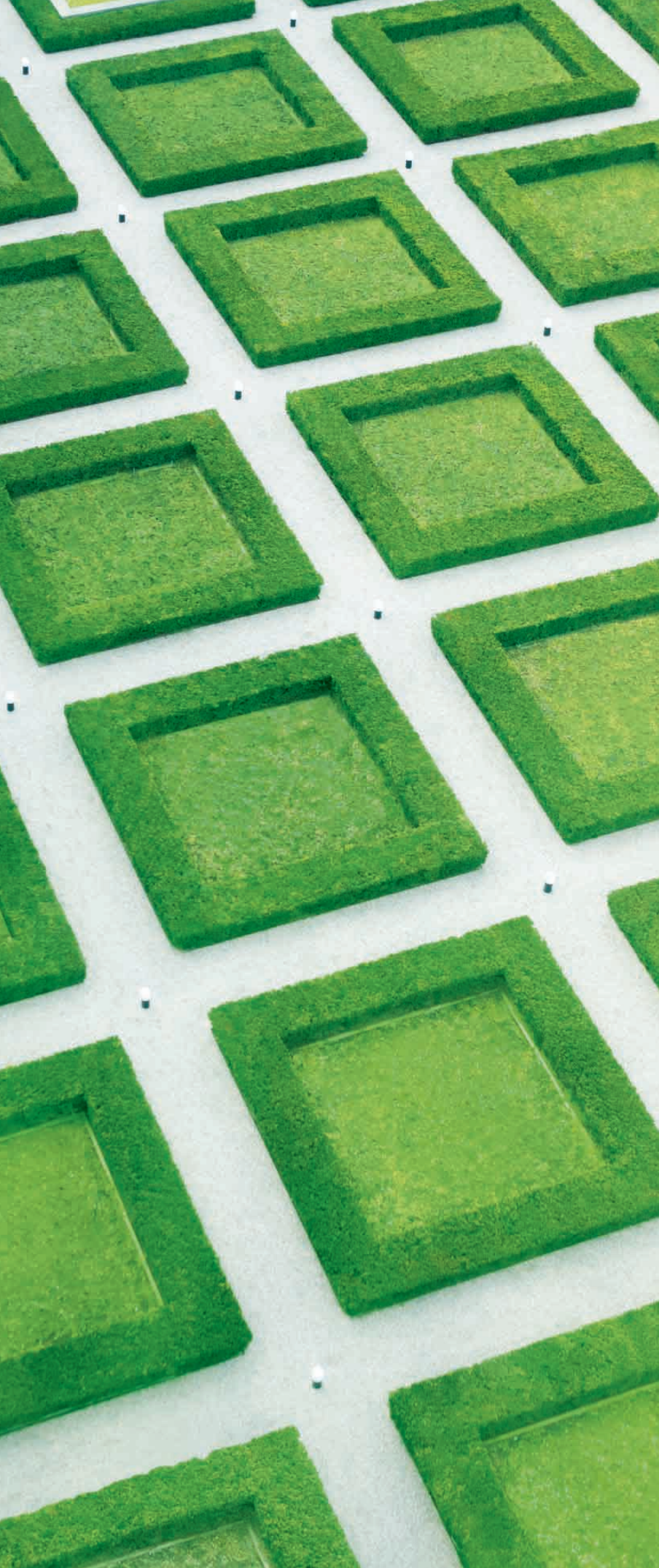


## INTRODUCTION TO ICBC

Industrial and Commercial Bank of China Limited ("ICBC" or "the Bank"), formerly known as Industrial and Commercial Bank of China, was established on 1 January 1984. Its name was changed to "Industrial and Commercial Bank of China Limited" on 28 October 2005, and was listed on both the Shanghai Stock Exchange and The Stock Exchange of Hong Kong Limited on 27 October 2006.

As the largest commercial bank in China, ICBC provides a wide variety of financial products and services to more than 2.41 million corporate banking customers and 170 million personal banking customers through its 16,997 domestic institutions, 98 overseas institutions and 1,326 correspondent banks around the world.





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## Corporate Information

### Legal name in Chinese

中國工商銀行股份有限公司(「中國工商銀行」)

### Legal name in English

INDUSTRIAL AND COMMERCIAL BANK OF  
CHINA LIMITED (“ICBC”)

### Legal representative

Jiang Jianqing

### Registered and office address

No.55 Fuxingmennei Avenue,  
Xicheng District, Beijing,  
People’s Republic of China  
Postal Code 100032  
Internet Website [www.icbc.com.cn](http://www.icbc.com.cn),  
[www.icbc-ltd.com](http://www.icbc-ltd.com)

### Principal place of business in Hong Kong

ICBC Tower, 3 Garden Road, Central, Hong Kong

### Authorised representatives

Yang Kaisheng, Pan Gongsheng

### Secretary to the Board

Pan Gongsheng  
Contact address No.55 Fuxingmennei Avenue,  
Xicheng District, Beijing, People’s Republic of China  
Telephone 86-10-66108608  
Facsimile 86-10-66106139  
E-mail [ir@icbc.com.cn](mailto:ir@icbc.com.cn)

### Qualified accountant

Yeung Manhin

### Selected newspapers for disclosure

A-share China Securities Journal, Shanghai  
Securities News, Securities Times  
H-share Hong Kong Economic Journal, Hong Kong  
Commercial Daily, Hong Kong Economic  
Times, South China Morning Post

### Website designated by China Securities Regulatory Commission (“CSRC”) for publication of annual report in respect of A-shares

[www.sse.com.cn](http://www.sse.com.cn)

### Website of The Stock Exchange of Hong Kong Limited (“SEHK”) for publication of annual report in respect of H-shares

[www.hkex.com.hk](http://www.hkex.com.hk)

### Legal advisors

#### • Mainland China

King & Wood Law Firm  
40/F, Office Tower A, Beijing Fortune Plaza,  
7 East 3rd Ring Middle Road, Chaoyang District,  
Beijing, PRC

#### • Hong Kong, China

Linklaters  
10/F, Alexandra House, Chater Road, Central,  
Hong Kong

### Compliance advisors

China International Capital Corporation  
(Hong Kong) Limited  
Merrill Lynch Far East Limited

**Share Registrars**• **A-share**

China Securities Depository and Clearing Corporation Limited, Shanghai Branch  
36/F, China Insurance Building, No. 166 Lujiazui Dong Road, Pudong New District, Shanghai, P.R.C.

• **H-share**

Computershare Hong Kong Investor Services Limited  
1806–1807, 18/F, Hopewell Center,  
183 Queen's Road East, Wanchai, Hong Kong

**Place where copies of this Annual Report are kept**

Office of the Board of Directors of the Bank

**Place where shares are listed, stock name and stock code**• **A-shares**

Shanghai Stock Exchange  
Stock name 工商銀行  
Stock code 601398

• **H-shares**

The Stock Exchange of Hong Kong Limited  
Stock name ICBC  
Stock code 1398

**Other relevant information of the Bank**

Date of change of registration 28 October 2005  
Registration authority State Administration for Industry and Commerce, People's Republic of China  
Corporate business license number 1000001000396  
Financial license institution number B10111000H0001  
Tax registration certificate number Jing Guo Shui Xi Zi 110102100003962  
Di Shui Jing Zi 110102100003962000

**Name and address of Auditors**• **Domestic auditors**

Ernst & Young Hua Ming  
Address Level 16, Ernst & Young Tower (Tower E3), Oriental Plaza, No.1 East Chang An Avenue, Dongcheng District, Beijing, China  
Postal code 100738

• **International auditors**

Ernst & Young  
Address 18/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong

This Annual Report is prepared in both Chinese and English languages. Should there be any discrepancy between the Chinese and English versions, the Chinese version shall prevail.

## Financial Highlights

(Financial data and indicators recorded in this Annual Report are prepared in accordance with the International Financial Reporting Standards and, unless otherwise specified, are consolidated amounts of the Bank and its subsidiaries and denominated in Renminbi.)

### Financial Data

(Unit: in RMB million)

	2006	2005	2004	2003
<b>Annual Operating Results</b>				
Net Interest Income	163,118	153,603	134,728	122,708
Net Fee and Commission Income	16,344	10,546	8,208	5,624
Operating Income	181,638	171,620	147,959	132,784
Provision for Impairment Losses	32,189	27,014	30,859	36,293
Operating Expenses	77,397	81,585	62,639	62,575
Operating Profit	72,052	63,021	54,461	33,916
Profit Before Tax	72,065	63,026	54,411	33,884
Profit After Tax	49,880	38,019	31,218	22,592
Profit Attributable to Equity Holders of the Bank	49,263	37,555	30,863	22,472
<b>Balance Sheet Items</b>				
Total Assets	7,508,751	6,456,131	5,069,324	4,556,951
Loans and Advances to customers	3,533,978	3,205,861	3,109,191	2,766,055
Investment Securities	2,860,798	2,305,689	1,230,416	1,044,730
Total Liabilities	7,037,750	6,196,255	5,577,369	5,096,085
Customer Deposits	6,351,423	5,736,866	5,176,282	4,706,861
Equity Attributable to Equity Holders of the Bank	466,464	255,839	(511,713)	(540,749)
(RMB)				
<b>Per Share Data</b>				
Net Assets Per Share <sup>(1)</sup>	1.40	1.03	N/A	N/A
Earnings Per Share Attributable to Equity Holders of the Bank <sup>(2)</sup>				
— Basic and diluted	0.18	0.15	0.12	0.09

Note: (1) It is calculated by dividing equity attributable to equity holders of the Bank at the end of the year by number of shares issued at the end of the year.

(2) Please refer to note 15 to the Financial Statements: Earnings Per Share Attributable to Equity Holders of the Bank.

## Major Financial Indicators

	2006	2005	2004	2003
<b>Profitability Indicator (%)</b>				
Return on Average Total Assets <sup>(1)</sup>	0.71	0.66	0.65	N/A
Return on Weighted Average Equity <sup>(2)</sup>	15.37	N/A	N/A	N/A
Net Interest Spread <sup>(3)</sup>	2.29	2.58	2.54	2.59
Net Interest Margin <sup>(4)</sup>	2.39	2.61	2.55	2.59
Ratio of Net Fee and Commission Income to Operating Income	9.00	6.14	5.55	4.24
Cost-to-income Ratio <sup>(5)</sup>	36.3	40.1	34.0	38.8
<b>Assets Quality Indicator (%)</b>				
Non-Performing Loans ("NPL") Ratio <sup>(6)</sup>	3.79	4.69	21.16	24.24
Allowance to NPL <sup>(7)</sup>	70.56	54.20	76.28	77.15
Total Loan Reserve Ratio <sup>(8)</sup>	2.68	2.54	16.14	18.70
<b>Capital Adequacy Ratio (%)</b>				
Core Capital Adequacy Ratio	12.23	8.11	N/A	N/A
Capital Adequacy Ratio	14.05	9.89	N/A	N/A
Total Equity to Total Assets Ratio	6.27	4.03	N/A	N/A

Note: (1) Percentage of profit after tax as a percentage of the average balance of total assets at the beginning and end of the period.

(2) It is calculated based on dividing profit attributable to the equity holders of the Bank by the weighted average balance of equity attributable to equity holders of the Bank which is calculated in accordance with the "Rules for the Compilation and Submission of Information Disclosure by Companies that Offer Securities to the Public No. 9" issued by China Securities Regulatory Commission.

(3) It is calculated by the spread between average yield on daily average interest-generating assets and average cost on daily average balance of interest-bearing liabilities.

(4) It is calculated by net interest income divided by daily average balance of interest-generating assets.

(5) It is calculated by dividing total operating expenses (less business tax and surcharges, and expense in relation to special government bond for the years ended 31 December 2003, 2004 and for the eleven months ended 30 November 2005) by operating income (net of interest income of special government bond for the years ended 2003, 2004 and for the eleven months ended 30 November 2005.)

(6) It is calculated by dividing the balance of NPL (balance of substandard, doubtful and loss loans) by total balance of loans and advances to customers.

(7) It is calculated by dividing provision for impairment losses on loans and advances by total balance of NPL.

(8) It is calculated by dividing provision for impairment losses on loans and advances by total balance of loans and advances to customers.

## OVERVIEW OF IPO



On 27 October 2006, Industrial and Commercial Bank of China Limited was concurrently listed in Shanghai and Hong Kong.

The Bank offered 55.65 billion of A-shares and H-shares in the IPO (including 8.14 billion state-owned shares sold on behalf of MOF and Huijin), accounting for 16.7% of its enlarged total share capital. The issue price of A-share was RMB3.12 per share and that of H-share was HKD3.07 per share, and the offering prices for A-shares and H-shares were essentially the same having taken currency conversion into account. The simultaneous IPO of ICBC's A-shares and H-shares made it a forerunner of listing of A-shares and H-shares on the same day and at the same price.



The Bank raised RMB173.23 billion in the IPO of A-shares and H-shares (including the net proceeds of RMB24.67 billion collected on behalf of MOF and Huijin from sale of state-owned shares), making it the largest IPO in the history of the world in terms of amount of fundraising. Amongst the funds raised, HK\$124.95 billion was raised from the H-share offering and RMB46.64 billion was raised from the A-share offering. The Bank's IPO is the largest A-share offering and H-share offering by far.



The IPO of A-share and H-share of the Bank is a milestone in domestic and overseas capital market, setting many historical and world records as of the listing date of the Bank. For example:

- **Largest IPO in the world.**
- **The first concurrent offering of A-share and H-share in the world.**
- **Largest H-share offering.**
- **Highest amount of funds frozen in the H-share offering.**
- **Largest A-share offering.**
- **Highest market capitalisation in the A-share market.**
- **The first exercise of over-allotment option in A-share offering.**

Awards obtained by the Bank from foreign media for the IPO of A- and H-share:

- IFR(ASIA)  
**Equity Deal of the Year**
- FINANCE ASIA  
**Best IPO  
Deal of the Year  
Best Equity Deal  
Best Privatization  
Best China Deal**
- IFR  
**Asia-Pacific Equity Issue  
Asia-Pacific IPO**
- CFO  
**Deal of the Year**
- ASIA MONEY  
**Best IPO**
- THE ASSET  
**Best Deal  
Best Equity  
Best IPO**
- EURO MONEY  
**Deal of the Year 2006**

## Chairman's Statement



*Chairman of the Board* **Jiang Jianqing**

2006 was a landmark year in the development of ICBC.

On 27 October, ICBC completed an unprecedented IPO of simultaneous dual A-share and H-share listing and achieved remarkable success. It was the largest share offering in the history of the global capital market. It broke many records and was named the "IPO of the Century" by the media and the banking sector worldwide. The public offering and listing marked a historical transition of ICBC from a solely state-owned commercial bank to a joint-stock commercial bank, then to an international public holding company. The IPO significantly improved our capital strength and the promotion of our image in the international market was notable. At the end of 2006, our net capital was RMB530,805 million, our net core capital reached RMB462,019 million and our capital and core capital adequacy ratios reached 14.05% and 12.23%, respectively. Our market capitalisation exceeded USD250 billion. Not only is ICBC the largest A-share company in terms of market capitalisation, it is also the largest listed bank in Asia as well as one of the three leading listed banks in the world.

The IPO process greatly promoted the transition of ICBC's operating strategy and innovative development of various businesses. The Bank's profitability and ability for risk control and sustainable development have also been enhanced markedly. Having already maintained a high rate of growth for three consecutive years, the group's profit after tax for 2006 increased by 31.2%, amounting to RMB49,880 million. Due to strong growth of profit after tax, the return on weighted average equity reached 15.37% despite the relatively large share capital base after the IPO. Return on average total assets reached 0.71%, an increase of 0.05 percentage points over last year. The non-performing loans ("NPL") balance and NPL ratio continued to drop. NPL ratio decreased to 3.79%. The ratio of allowance to NPL increased by 16.36 percentage points to 70.56%. The cost-to-income ratio remained at a satisfactory level of 36.3%.

The IPO has laid a good foundation for ICBC to establish itself into a modern financial institution. To meet the requirements applicable to a listed bank, ICBC further modernised its corporate governance structure and refined its operational system which is characterised by scientific decision-making, strong execution capability and effective supervision. We adjusted the constitution of the special committees established under the Board and strengthened the decision-making and supervisory functions of the Board. By electing an employee representative supervisor, we consolidated the Board of Supervisors and truly realised the potential of its functions. The Bank established a targets management system, an authorisation system and corresponding incentive and disciplinary mechanism for senior management. By setting up a new capital management regime, an asset and liability management system, a performance evaluation system and an internal organisation system, a new management framework was essentially created. By improving the working mechanism of the Risk Management Committee, appointing a Chief Risk Officer and strengthening internal audit supervision, the Bank further improved its risk management control. We have also successfully attracted National Council for Social Security Fund and various overseas strategic investors, such as Goldman Sachs, Allianz, American Express, and achieved impressive results in our strategic cooperation in the areas of risk management and product and service innovation. This has accelerated our adoption of international standards and best practices.

ICBC owes its achievements in 2006 to the support and assistance of the Central Government and the regulatory authorities, to the unwavering trust shown by the domestic and overseas investors, the general public and our customers, and especially to the hard work of all the staff of ICBC. On behalf of the Board of ICBC, I hereby give you my sincere thanks!

Year 2007 is the first year that foreign banks are permitted to engage in RMB business for domestic citizens in the Chinese banking industry, as well as the inaugural year in the new history of ICBC to build a first-class international modern financial institution. We will proactively adapt to changes in the economic and financial environment, continue to achieve the goal of increasing company value and maximising shareholder interests in a sustainable manner. We will focus on improving our corporate governance practice, comprehensively furthering organisational reform of our branches, and accelerating effective operation of new systems and measures, to meet the requirements of domestic and overseas regulatory authorities and those of the capital markets. We will also accelerate innovation and improve our service quality, continuously strengthen our core competitiveness and our sustainable development capability. Emphasis will be placed on risk management and we will vigorously introduce advanced risk management concepts, mechanisms, techniques and tools, and strive to build the best bank in risk management. We will focus on implementing our talent strategy, improving our incentive and disciplinary system, establishing a human resources management system commensurate with that of a modern financial institution, and providing personnel and intellectual support for the reform and development of ICBC.

We believe that, at this new juncture, ICBC will certainly seize the opportunities, move towards the ambitious goal of becoming a first-class international modern financial institution, provide quality service to its customers and better advancement opportunities to its staff, maximise shareholders' value and actively contribute to the building of a harmonious society!



**Chairman: Jiang Jianqing**

3 April 2007

**President's Statement**



*President* **Yang Kaisheng**

I am very pleased to inform the shareholders, the regulatory authorities and members of the general public who are interested in ICBC that, in 2006, ICBC completed its listings in both domestic and overseas capital markets while also successfully achieved its annual business objectives. The Group's profit after tax reached RMB49.88 billion, representing a year-on-year growth of 31.2%. The return on average total assets amounted to 0.71% and the return on weighted average equity reached 15.37%.

The Bank began to implement a new strategic development plan in 2006. Our operations and growth prospects became more robust and positive. The structure of our business, income, distribution channels and our customer portfolio improved markedly. Our level of competitiveness and management also reached new heights.

**The Bank increased its profitability of asset and liability business.** Deposits increased by RMB614,557 million, representing a growth of 10.7%. Loans increased by RMB341,618 million, representing a growth of 10.4%, mainly due to the rapid increase in loans to fast-growing industries such as transportation, energy, infrastructure, and loans to small enterprises and individuals with high returns. Loans to domestic small enterprises and individuals increased by RMB59,700 million and RMB61,067 million respectively, representing a growth of 71.8% and 11.9%, respectively. The structure of our bond investment portfolio further improved, with interest income from securities investment hitting a record RMB66,883 million. Our asset and liability business continued to grow based on our optimised structure and produced a stable source of income. Net interest income reached RMB163,118 million, representing an increase of 6.2% from the previous year.

**Fee based businesses and new businesses grew rapidly.** ICBC introduced various wealth management products to meet the needs of its customers, and sold RMB432.8 billion of such products in 2006, representing a year-on-year increase of 93%. It was the first among all banks in China to issue more than 10 million credit cards with total annual spending of over RMB100 billion. The amounts of RMB settlement with corporations and international settlement reached RMB260 trillion and USD399.6 billion respectively, further expanding the advantages of ICBC as the leading settlement bank in China. The respective advantages in asset custody, annuity management and cash management businesses were consolidated. Electronic banking transactions amounted to RMB45.2 trillion, with the proportion of business volume conducted off-the-counter increased by 4.2 percentage points to 30.1% of total business volume, and the functions of electronic marketing and the diversification of business channels continued to improve. The rapid development of these businesses significantly increased the net fee and commission income of the Bank, which increased by 55.0% to RMB16,344 million, accounting for 9.0% of the Bank's operating income, a year-on-year increase of 2.9 percentage points. The income structure of the Bank has further improved.

**The contribution of retail banking to total profits of the Bank increased continuously.** The Bank has traditionally had a competitive advantage in retail banking business, which is one of the strategic businesses supporting the future continuous business development of the Bank. Last year, ICBC implemented the best retail bank strategy and fully accelerated product innovation, service upgrade and market development of its personal banking business. As a result, income from personal banking business reached RMB62,257 million, accounting for 34.3% of the income of all businesses.

**Notable advantage of being technologically advanced.** After becoming the first bank in China to complete data integration, ICBC also led the way in completing data logic integration for corporate banking and private banking businesses in 2006, and proactively established its core business application platform to satisfy its future business development needs. Application systems such as customer information systems and risk management systems were continuously introduced and put into operation, such that the Bank's advantage in information technology was further translated into improved productivity, thereby enhancing its support and promotional function for the business development of the Bank.

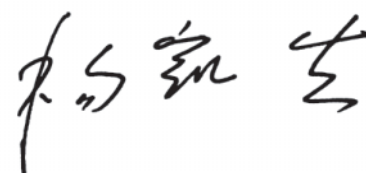
**The Bank enhanced its costs control and risk management capabilities.** We allocated cost resources based on EVA and strengthened our comprehensive costs control capability. Our cost to income ratio was maintained at a healthy level of 36.3%. Our comprehensive risk management system continued to improve. The internal rating-based approach was adopted in the area of non-retail loans, thereby strengthening our credit risk management capability. The NPL balance of the Bank continued to decrease to an NPL ratio of 3.79%. The NPL reserve ratio reached 70.56%, representing a year-on-year increase of 16.36 percentage points. In order to adapt to the market-based interest rate reforms and RMB exchange-rate regime reforms, ICBC continued to improve its market-risk and liquidity-risk management mechanisms. The internal control system was further solidified and our control of operational risks is at a relatively high level among international banks.

**We fully implemented the human capital strategy.** To meet the needs of the development of a listed bank, ICBC adjusted and consolidated management at all levels. A large pool of talented individuals with good operational skills and understanding of our business, emerged to play a greater role in the operation and management of the Bank. ICBC conducted training for staff of all levels and provided specialised trainings for management personnels and professionals at all levels and business lines.

In the past year, new reforms and development achievements of ICBC won wide recognition from all circles in China and abroad. The Bank won various awards including "Bank of the Year 2006 Emerging Market", "Bank of the Year 2006 China", "Best National Retail Bank", "Best Consumer Internet Bank", "Best Domestic Custodian", and "Best Local Currency Cash Management Services (By Currency)". International rating agencies such as Moody's, Standard and Poor's, and Fitch Ratings, all raised their credit ratings for ICBC.

2007 will be the first complete financial year for ICBC after our entry into the capital market. To achieve the strategic targets set by the Board, we will endeavour to deepen our internal reform, accelerate the transition of our operational methodologies, enhance our independent innovation ability, actively improve financial services quality, strengthen risk management comprehensively and rapidly improve our core competitiveness, so as to safeguard the swift and healthy development of various businesses and accomplish the balanced and sustainable development of corporate value and shareholder returns.

In pursuing the establishment of a first-class modern international financial institution, the management has the confidence and the ability to continuously achieve new heights, take new strides, and present our shareholders with satisfactory results.



**President: Yang Kaisheng**

3 April 2007



*Chairman of Board of Supervisors* **Wang Weiqiang**

## 2006 AWARDS



- THE BANKER

**Networking Initiative  
of the Year**



**Bank of the Year 2006  
Emerging Market**

**Bank of the Year 2006 (China)**

- GLOBAL CUSTODIAN

**Domestic Top Rated Provider  
(China)**



- GLOBAL FINANCE

**Best Investment Management  
Services (Asia/Pacific)**

**Best Consumer Internet Bank  
(China)**

- FINANCE ASIA

**Best IPO**

**Deal of the Year**

**Best Equity Deal**

**Best Privatization**

**China Deal of the Year**



- THE ASIAN BANKER

**Best National Retail Bank  
(China)**

- IFR(ASIA)

**Equity Deal of the Year**



- THE ASSET

**Best Domestic Custodian (China)**

**Best Deal**

**Best Equity**

**Best IPO**

- IFR

**Asia-Pacific Equity Issue**

**Asia-Pacific IPO**



- ASIA MONEY

**Best IPO**

**Best Local Currency Cash  
Management Services  
(by Currency, RMB)**

- CFO

**Deal of the Year**

## Details of Changes in Share Capital and Shareholding of Substantial Shareholders

### Changes in Share Capital

#### DETAILS OF CHANGES IN SHARE CAPITAL

Unit: Share

	Before the change		Increase/decrease as a result of the change (+, -)			After the change	
	Number of Shares	Percentage (%)	Shares Issued	Others	Subtotal	Number of Shares	Percentage (%)
I. Shares subject to restrictions on sales	286,509,130,026	100	18,135,498,000	-12,209,895,000	5,925,603,000	292,434,733,026	87
1. State-owned shares	262,324,392,623	92		-12,209,895,000	-12,209,895,000	250,114,497,623	75
2. Shares held by state-owned entities							
3. Shares held by other domestic investors			8,119,220,000		8,119,220,000	8,119,220,000	2
Comprising:							
Shares held by domestic legal persons							
Shares held by domestic natural persons							
4. Shares held by foreign investors	24,184,737,403	8	10,016,278,000		10,016,278,000	34,201,015,403	10
Comprising:							
Shares held by foreign legal persons							
Shares held by foreign natural persons							
II. Shares not subject to restrictions on sales			37,514,152,000	4,069,965,000	41,584,117,000	41,584,117,000	13
1. RMB ordinary shares			6,830,780,000		6,830,780,000	6,830,780,000	2
2. Others			30,683,372,000	4,069,965,000	34,753,337,000	34,753,337,000	11
III. Total number of shares	286,509,130,026	100	55,649,650,000	-8,139,930,000	47,509,720,000	334,018,850,026	100

Notes: (1) For the purpose of this table, "before the change" and "after the change" mean before and after the IPO of the Bank, respectively.

(2) The nature of state-owned shares is defined according to relevant provisions of the Reply from the Ministry of Finance Regarding the Management Plan of State-owned Shares of ICBC (C.J.H [2006] No.169). For the purpose of this table, state-owned shares specifically refer to the shares held by the Ministry of Finance of the PRC ("MOF"), Central SAFE Investments Limited ("Huijin") and the National Council for Social Security Fund of the PRC ("SSF"). The shares held by foreign investors mentioned in the table above refer to the shares held by foreign shareholders who participated in the global offering of H-share of ICBC, and the shares held by foreign strategic investors, including The Goldman Sachs Group, Inc. ("Goldman Sachs"), Allianz Group ("Allianz") and American Express Group ("American Express"). Shares held by other domestic investors refer to the A-share issued pursuant to institutional placement.

(3) Shares subject to restrictions on sales refer to shares held by shareholders who are subject to restrictions on sales in accordance with laws, regulations and rules or under commitment.

**DATES ON WHICH SHARES SUBJECT TO RESTRICTIONS ON SALES BECOME TRADABLE**

Unit: Share

Date	Number of shares tradable at the expiry of lock-up period	Outstanding number of shares subject to restrictions on sales	Outstanding number of shares not subject to restrictions on sales	Remarks
27 January 2007	2,350,000,000	290,084,733,026	41,584,117,000	A-share institutional places
27 October 2007	12,900,888,000	277,183,845,026	43,934,116,000	A-share strategic investor and H-share corporate placing
27 April 2008	2,884,610,000	274,299,235,026	56,835,005,000	A-share strategic investor
28 April 2009	12,092,368,700	262,206,866,326	59,719,615,000	Goldman Sachs, Allianz, American Express
29 June 2009	7,051,074,779	255,155,791,547	71,811,983,700	SSF
20 October 2009	19,143,443,483	236,012,348,064	78,863,058,479	Goldman Sachs, Allianz, American Express, SSF
27 October 2009	236,012,348,064	0	98,006,501,962	A-share held by MOF and Huijin

The A-share held by MOF and Huijin will not be subject to the 36-month lock-up period after receiving approval of conversion into H-shares from relevant authorities.

**PARTICULARS OF TOP 10 HOLDERS OF SHARES SUBJECT TO RESTRICTIONS ON SALES**

Unit: Share

No.	Name of holders of shares subject to restrictions on sales	Type of Shares	Shares subject to restrictions on sales	Date on which shares become tradeable	Number of new tradable shares
1	MOF	A-share	118,006,174,032	27 October 2009	118,006,174,032
2	Huijin	A-share	118,006,174,032	27 October 2009	118,006,174,032
3	SSF	H-share	14,102,149,559	29 June 2009 20 October 2009	7,051,074,779 7,051,074,780
4	Goldman Sachs	H-share	16,476,014,155	28 April 2009 20 October 2009	8,238,007,077 8,238,007,078
5	Allianz	H-share	6,432,601,015	28 April 2009 20 October 2009	3,216,300,507 3,216,300,508
6	American Express	H-share	1,276,122,233	28 April 2009 20 October 2009	638,061,116 638,061,117
7	Kuwait Investment Authority	H-share	1,824,104,000	27 October 2007	1,824,104,000
8	China Life Insurance (Group) Company	H-share	1,443,224,000	27 October 2007	1,443,224,000
9	China Life Insurance (Group) Company	A-share	641,025,000	27 October 2007 27 April 2008	320,512,500 320,512,500
10	China Life Insurance Company Limited	A-share	641,025,000	27 October 2007 27 April 2008	320,512,500 320,512,500

## Details of Share Issuance and Initial Public Offering

On 27 January 2006, ICBC entered into share purchase agreements with three foreign strategic investors, namely Goldman Sachs, Allianz and American Express. Pursuant to their respective share purchase agreements, Goldman Sachs, Allianz and American Express subscribed for 16,476,014,155 shares, 6,432,601,015 shares and 1,276,122,233 shares newly issued by ICBC on 28 April 2006 for a consideration of USD2,582.2 million, EUR824.7 million and USD200 million, respectively (on the basis of an agreed exchange rate of one US dollar to RMB8.0304 and one euro to RMB9.8167). On 29 June 2006, the SSF subscribed for 14,324,392,623 shares newly issued by ICBC for a consideration of approximately RMB18 billion.

On 27 October 2006, the Bank was successfully listed in Shanghai and Hong Kong on the same day. A total of 14,950,000,000 A-share and 40,699,650,000 H-share (including 8,139,930,000 state-owned shares sold on behalf of MOF and Huijin) were offered in the initial public offering. After the initial public offering, the Bank had a total of 334,018,850,026 shares in issue, comprising 250,962,348,064 A-shares and 83,056,501,962 H-shares.

The Bank did not have any employee shares.

## Particulars of Shareholders

### Particulars of Top 10 Shareholders

- **Number of Shareholders:**

As at the end of the reporting period, the Bank had a total of 735,475 shareholders, of which 273,396 of them are holders of H-shares and 462,079 of them are holders of A-shares.

- **Particulars of Shareholding of the Top 10 Shareholders of ICBC (based on the number of shares set out in the Bank's register of Shareholders maintained at the H-share registrar)**

### NUMBER OF SHAREHOLDERS AND PARTICULARS OF SHAREHOLDINGS

Unit: Share

Name of Shareholder	Nature of Shareholder	Type of shares	Shareholding percentage	Total number of shares held	Number of shares subject to restrictions on sales	Number of pledged or locked-up shares
Total number of shareholders				735,475 (Holders of A-shares and H-shares registered as at 31 December 2006)		
Particulars of shareholding of the top 10 shareholders (The following data is based on the shareholders registered as of 31 December 2006)						
MOF	State-owned shares	A-share	35.3%	118,006,174,032	118,006,174,032	None
Huijin	State-owned shares	A-share	35.3%	118,006,174,032	118,006,174,032	None
HKSCC NOMINEES LIMITED	Foreign investment	H-share	12.9%	43,222,318,000	0	Unknown
GOLDMAN SACHS	Foreign investment	H-share	4.9%	16,476,014,155	16,476,014,155	Unknown
SSF	State-owned shares	H-share	4.2%	14,102,149,559	14,102,149,559	Unknown
DRESDNER BANK LUXEMBOURG S.A. (Allianz holds shares in ICBC through its wholly-owned subsidiary DRESDNER BANK LUXEMBOURG S.A.)	Foreign investment	H-share	1.9%	6,432,601,015	6,432,601,015	Unknown
AMERICAN EXPRESS	Foreign investment	H-share	0.4%	1,276,122,233	1,276,122,233	Unknown
China Life Insurance (Group) Company — traditional — ordinary insurance products	Others	A-share	0.2%	809,266,000	641,025,000	None
China Life Insurance Company Limited — traditional — ordinary insurance products — 005L — CT001 Hu	Others	A-share	0.2%	682,083,807	641,025,000	None
China Pacific Life Insurance Co., Ltd. — traditional — ordinary insurance products	Others	A-share	0.2%	655,591,000	641,025,000	None

China Life Insurance Company Limited is a subsidiary of China Life Insurance (Group) Company. Save and except as the aforesaid, the Bank is not aware of any connections between the above Shareholders or whether they are parties acting in concert.

**PARTICULARS OF SHAREHOLDING OF THE TOP 10 SHAREHOLDERS NOT SUBJECT TO RESTRICTIONS ON SALES (THE FOLLOWING DATA IS BASED ON THE REGISTER OF SHAREHOLDERS AS OF 31 DECEMBER 2006)**

Name of Shareholder	Shares not subject to restrictions on sales	Type of shares
HKSCC Nominees Limited	43,222,318,000	H-share
Southern Open-end Securities Investment Fund for Stocks with High Growth — Bank of China	225,350,000	A-share
Huaxia Securities Investment Fund for Growth Stocks — China Construction Bank	145,000,000	A-share
Jingshun Great Wall Domestic Demand Growth No.2 Stock Securities Investment Fund — Agricultural Bank of China	116,947,938	A-share
Taida-ABN Securities Investment Fund for Preferred Enterprise Stocks — Agricultural Bank of China	102,499,654	A-share
Huabao Xingye Securities Investment Fund for Growth Stocks — Bank of China	100,000,000	A-share
Bank of Communications Schroders Securities Investment Fund for Growth Stocks — Agricultural Bank of China	100,000,000	A-share
IFC — Standard Chartered — CITIGROUP GLOBAL MARKETS LIMITED	86,066,380	H-share
Bank of Communications Schroders Mixed Securities Investment Fund with Prudent Portfolio — China Construction Bank	75,733,184	A-share
Jingfu Securities Investment Fund	73,525,626	A-share
Jinghong Securities Investment Fund — Bank of China	60,008,239	A-share

Save and except that certain of the above shareholders are managed by the same fund manager, the Bank is not aware of any connections between the above Shareholders or whether they are parties acting in concert.

**Particulars of the Substantial Shareholders of the Bank**

During the reporting period, the Bank's substantial shareholders and the de facto controller remained unchanged.

• **Substantial Shareholders**

The Bank's largest single shareholders are MOF and Huijin, each with an interest of approximately 35.33% of the shares of the Bank, respectively.

MOF is a department under the State Council responsible for overseeing China's fiscal revenue and expenditure and taxation policies at a high level.

Huijin is wholly state-owned company with limited liability which was incorporated on 16 December 2003, in accordance with PRC laws. Huijin has registered capital of RMB372,465 million, and its legal representative is Hu Xiaolian. Huijin exercises the investor's rights and obligations in the Bank on behalf of the state, and implements and executes China's policies and arrangements relating to the reform of state-owned financial institutions. Huijin does not engage in any other commercial activities.

• **Particulars of Other Corporate Shareholders who Hold 10% Shares or More (excluding HKSCC Nominees Limited)**

None

• **Particulars of the De Facto Controller**

None

**Particulars of Other Corporate Shareholders**

• **Goldman Sachs**

Goldman Sachs is a global investment banking and securities and investment management company, providing products and services to worldwide customers, which include corporations, financial institutions, governments and high net-worth individual customers. Goldman Sachs has extensive experience and expertise in risk management, treasury management and products, asset management and financing, coupled with its commitment to corporate governance and internal control, ICBC believes that Goldman Sachs is a valuable partner for ICBC in achieving ICBC's objectives such as improving corporate governance, risk management and developing banking business. The Bank also believes that the respective corporate cultures of Goldman Sachs and ICBC complement each other, which is critical to building a long-term strategic partnership.

• **SSF**

The National Social Security Fund is a fund set up by the PRC government to provide social security for the nation's aging population and to support the economic development and social stability. It is funded by government appropriations and proceeds from disposals of state-owned shares and other capital raising activities approved by the State Council and its own investment returns. The National Social Security Fund is managed and operated by the SSF.

• **Allianz**

Allianz is a world leading insurance company and financial services provider. Allianz has extensive experience and expertise in insurance business. ICBC believes that Allianz is a valuable partner for ICBC to develop leading bancassurance products and services.

• **American Express**

American Express is a diversified worldwide travel, financial and network services company. Its principal business includes charge cards, credit cards, Travelers Cheques, travel and business services. American Express has extensive experience and expertise in credit card business. ICBC believes that American Express is a valuable partner for ICBC to develop credit card products for its customers.

## Directors, Supervisors, Senior Management and Basic Information on Employees

### Brief Particulars of Directors, Supervisors and Senior Management

#### DIRECTORS OF THE BANK

Name	Position	Gender	Age	Term of Directors	Shares held at the beginning of the year	Shares held at the year-end	Reasons for changes	Total remuneration received from the Bank during the reporting period (before tax, in RMB 10,000)	Whether or not the remuneration is collected from the shareholder entities or other connected entities
Jiang Jianqing	Chairman, Executive Director	Male	53	October 2005 — October 2008	0	0	—	130	No
Yang Kaisheng	Vice Chairman, Executive Director, President	Male	57	October 2005 — October 2008	0	0	—	125	No
Zhang Furong	Executive Director, Vice President	Male	54	October 2005 — October 2008	0	0	—	108	No
Niu Ximing	Executive Director, Vice President	Male	50	October 2005 — October 2008	0	0	—	108.93	No
Fu Zhongjun	Non-Executive Director	Male	49	October 2005 — October 2008	0	0	—	0	Yes
Kang Xuejun	Non-Executive Director	Male	55	October 2005 — October 2008	0	0	—	0	Yes
Song Zhigang	Non-Executive Director	Male	55	October 2005 — October 2008	0	0	—	0	Yes
Wang Wenyan	Non-Executive Director	Male	58	October 2005 — October 2008	0	0	—	0	Yes
Zhao Haiying	Non-Executive Director	Female	41	October 2005 — October 2008	0	0	—	0	Yes
Zhong Jian'an	Non-Executive Director	Male	47	October 2005 — October 2008	0	0	—	0	Yes
Christopher A. Cole	Non-Executive Director	Male	47	June 2006 — June 2009	0	0	—	0	Yes
Leung Kam Chung, Antony	Independent Non-Executive Director	Male	54	October 2005 — October 2008	0	0	—	37.5	No
John L. Thornton	Independent Non-Executive Director	Male	52	October 2005 — October 2008	0	0	—	32.5	No
Qian Yingyi	Independent Non-Executive Director	Male	50	October 2005 — October 2008	0	0	—	33.5	No

## SUPERVISORS OF THE BANK

Name	Position	Gender	Age	Term of Supervisors	Shares held at the beginning of the year	Shares held at the year-end	Reasons for changes	Total remuneration received from the Bank during the reporting period (before tax, in RMB 10,000)	Whether or not the remuneration is collected from the shareholder entities or other connected entities
Wang Weiqiang	Chairman of the Board of Supervisors	Male	59	October 2005 — October 2008	0	0	—	118	No
Wang Chixi	Supervisor	Female	51	October 2005 — October 2008	0	0	—	70	No
Wang Daocheng	External Supervisor	Male	66	October 2005 — October 2008	0	0	—	25	No
Miao Gengshu	External Supervisor	Male	65	October 2005 — October 2008	0	0	—	23	No
Zhang Wei	Supervisor	Male	44	August 2006 — August 2009	0	0	—	68.8094	No

## SENIOR MANAGEMENT OF THE BANK

Name	Position	Gender	Age	Term of Senior Management Members	Shares held at the beginning of the year	Shares held at the year-end	Reasons for changes	Total remuneration received from the Bank during the reporting period (before tax, in RMB 10,000)	Whether or not the remuneration is collected from the shareholder entities or other connected entities
Yang Kaisheng	President	Male	57	October 2005 —	0	0	—	125	No
Zhang Furong	Vice President	Male	54	October 2005 —	0	0	—	108	No
Niu Ximing	Vice President	Male	50	October 2005 —	0	0	—	108.93	No
Zhang Qu	Vice President	Male	59	October 2005 —	0	0	—	108.96	No
Wang Lili	Vice President	Female	55	October 2005 —	0	0	—	108.51	No
Li Xiaopeng	Vice President	Male	47	October 2005 —	0	0	—	108.09	No
Liu Lixian	Secretary of Party Discipline Committee	Male	52	May 2005 —	0	0	—	108	No
Yi Huiman	Member of Senior Management of the Head Office, President of Beijing Branch	Male	42	June 2005 —	0	0	—	86.48	No
Wei Guoxiong	Chief Risk Officer	Male	51	July 2006—	0	0	—	86	No
Pan Gongsheng	Secretary of the Board of Directors	Male	43	October 2005 — October 2008	0	30,000	Purchase from the secondary market	100	No

## Biographical Details of Directors, Supervisors and Senior Management Members

### Jiang Jianqing, Chairman & Executive Director

Mr. Jiang has served as Chairman of the Board of Directors and executive director of Industrial and Commercial Bank of China Limited since October 2005. He joined ICBC in 1984, and was appointed as President in February 2000. Mr. Jiang previously served several positions including vice president of ICBC Shanghai Branch, president of Shanghai Urban Cooperation Commercial Bank (now known as Bank of Shanghai), president of ICBC Shanghai Branch and Vice President of ICBC. Currently he is also the chairman of the board of directors of ICBC (Asia). He graduated from Shanghai University of Finance and Economics and Shanghai Jiaotong University, and received a Master's degree in engineering and a Doctorate degree in management from Shanghai Jiaotong University.

### Yang Kaisheng, Vice Chairman, Executive Director & President

Mr. Yang has served as Vice Chairman of the Board of Directors, executive director and President of Industrial and Commercial Bank of China Limited since October 2005. He joined ICBC in 1985, and was appointed as Vice President in September 1996. He previously served several positions including vice director of ICBC Discipline Enforcement Office, director of ICBC Planning & Information Department, president of ICBC Shenzhen Branch, Vice President of ICBC, president of the China Huarong Asset Management Corporation. He currently serves as chairman of the board of ICBC Credit Suisse Asset Management Co., Ltd. and deputy director of the 16th Committee of China International Economic and Trade Arbitration Commission. He graduated from Wuhan University with a Doctorate degree in economics.

### Zhang Furong, Executive Director & Vice President

Mr. Zhang has served as executive director and Vice President of Industrial and Commercial Bank of China Limited since October 2005. He joined Industrial and Commercial Bank of China in 1984, and was appointed as Vice President in 2000. He previously served several positions at ICBC including vice president of ICBC Liaoning Branch, president of ICBC Dalian Branch, assistant to President of ICBC and general manager of Human Resources Department. Mr. Zhang is also vice president of the Banking Accounting Society of China and deputy director of Financial Planning Standards Council of China. He graduated from Liaoning Finance and Economics College and received a Master's degree in economics and a Doctorate degree in finance from Dongbei University of Finance and Economics.

### Niu Ximing, Executive Director & Vice President

Mr. Niu has served as executive director and Vice President of Industrial and Commercial Bank of China Limited since October 2005. He joined ICBC in 1986, and was appointed as Vice President in November 2002. He previously served several positions at ICBC including general manager of Industrial and Commercial Credit Department of ICBC, president of ICBC Beijing Branch, and assistant to president of ICBC and president of ICBC Beijing Branch. He graduated from Central Institute of Finance and Banking and received a Master's degree in technology economics from the Harbin Institute of Technology.

#### **Fu Zhongjun, Non-Executive Director**

Mr. Fu has served as non-executive director of Industrial and Commercial Bank of China Limited since October 2005. He was appointed as vice ombudsman of Anhui Finance Ombudsman Office of MOF in 2002, and as vice ombudsman of Shanghai Finance Ombudsman Office of MOF in 2000. He previously served several positions including chief of Division One of the Dispatched Institution Management of Finance Supervision Department of MOF, chief of the Central Division Two of Finance Supervision Department of MOF, chief of the Inspection Division Two of Finance Supervision Department of MOF, and chief of the Inspection Division Two of Inspection and Supervision Department of MOF. He graduated from Sichuan University.

#### **Kang Xuejun, Non-Executive Director**

Mr. Kang has served as non-executive director of Industrial and Commercial Bank of China Limited since October 2005. He was appointed as director of the Investment Review Center of MOF in 2001. He previously served several positions including chief of the Statistics and Analysis Division of the Comprehensive and Reform Department of MOF and vice director-general of the Comprehensive Department. He graduated from Tianjin College of Finance and Economics.

#### **Song Zhigang, Non-Executive Director**

Mr. Song has served as non-executive director of Industrial and Commercial Bank of China Limited since October 2005. He was appointed as deputy director of the State Agricultural Comprehensive Development Office of MOF in 1998. He previously served several positions including deputy director of "China Tax" in China State Finance Editorial Agency and assistant inspector of the State Agricultural Comprehensive Development Office of MOF. He graduated from Nankai University.

#### **Wang Wenyan, Non-Executive Director**

Mr. Wang has served as non-executive director of Industrial and Commercial Bank of China Limited since October 2005. He was appointed as director-general of the Collection Management Department of State Administration of Taxation in 2000. He previously served several positions including director assistant and office director of the Beijing Taxation Bureau, and deputy director of the Beijing Taxation Bureau and deputy director of the Beijing Local Taxation Bureau. He graduated from Central Institute of Finance and Banking.

#### **Zhao Haiying (Female), Non-Executive Director**

Ms. Zhao has served as non-executive director of Industrial and Commercial Bank of China Limited since October 2005. She was appointed as deputy director of the Issuing Supervision Department of CSRC in 2002. She had also served as consultant of the Asian Development Bank and a member of the Strategy Planning Committee of CSRC. Ms. Zhao taught at the Business School of Hong Kong University of Science and Technology and at the Economics and Finance School of Hong Kong University. She graduated from Tianjin University and received a Doctorate degree in economics from University of Maryland, USA.

### **Zhong Jian'an, Non-Executive Director**

Mr. Zhong has served as non-executive director of Industrial and Commercial Bank of China Limited since October 2005. He has worked in the Central Finance and Economy Leadership Team Office since 1993, and was appointed as assistant inspector and then inspector of the secretariat. Mr. Zhong received a Master's degree in management engineering from Central South Industrial University.

### **Christopher A. Cole, Non-Executive Director**

Christopher A. Cole has served as a non-executive director of Industrial and Commercial Bank of China Limited since June 2006. He currently is chairman of Investment Banking Division at Goldman Sachs, and serves on the Management Committee, Capital Committee and Finance Committee of Goldman Sachs. Previously, he was head of the Financial Institutions Group and co-head of Investment Banking Division at Goldman Sachs. He graduated from Princeton University, and later from Harvard University with an MBA degree.

### **Leung Kam Chung, Antony, Independent Non-Executive Director**

Mr. Leung has served as independent non-executive director of Industrial and Commercial Bank of China Limited since October 2005. He was the Financial Secretary of Hong Kong from 2001 to 2003. He was also chairman of the Asia-Pacific Region of JP Morgan Chase Bank and worked for Citicorp. He had been regional chief of the treasury department, corporate banking department, investment banking department and personal banking department of Citibank in Hong Kong, Singapore, Manila and New York. Mr. Leung graduated from Hong Kong University and was awarded an Honorary Doctorate degree of law by Hong Kong University of Science and Technology.

### **John L. Thornton, Independent Non-Executive Director**

Mr. Thornton has served as independent non-executive director of Industrial and Commercial Bank of China Limited since October 2005. He was the president of Goldman Sachs. He graduated from Harvard University, received a Master's degree in law from Oxford University and M.P.P.M. from Yale University.

### **Qian Yingyi, Independent Non-Executive Director**

Mr. Qian has served as independent non-executive director of Industrial and Commercial Bank of China Limited since October 2005. He is Professor of Economics at the University of California, Berkeley and the Dean of the School of Economics and Management of Tsinghua University, and he had taught at the Department of Economics at Stanford University and University of Maryland. He graduated from Tsinghua University and received a PhD in economics at Harvard University.

### **Wang Weiqiang, Chairman of the Board of Supervisors**

Mr. Wang has served as Chairman of Board of Supervisors of Industrial and Commercial Bank of China Limited since October 2005. He was seconded the State Council as chairman of the board of supervisors of Industrial and Commercial Bank of China in 2003, and joined ICBC in 2005. He had also taken several positions including vice president of Liaoning Branch of China Construction Bank, president of Shaanxi Branch of China Construction Bank, secretary general of Shaanxi Provincial People's Government, president of Chengdu Branch (Regional Branch) of People's Bank of China, and was appointed by the State Council as chairman of the board of supervisors of Agricultural Bank of China. He graduated from Liaoning University.

### **Wang Chixi (Female), Supervisor**

Ms. Wang has served as Supervisor of Industrial and Commercial Bank of China Limited since October 2005. She was seconded by the State Council as full-time supervisor of the Board of Supervisors at bureau level and director of the Board of Supervisors' Office of Industrial and Commercial Bank of China in 2003. She joined ICBC in 2005. She had also taken several positions including vice chief of the Financial Audit Department of the National Audit Office (NAO), deputy director of the Agricultural, Forestry and Sea Products Audit Bureau and was appointed by the State Council as a full-time supervisor of the board of supervisors at the bureau level and director of the board of supervisors' office at the Agricultural Bank of China. She graduated from Shenyang Agricultural College, and is a certified public accountant.

### **Wang Daocheng, External Supervisor**

Mr. Wang has served as external supervisor of Industrial and Commercial Bank of China Limited since October 2005. He was appointed as president of the China Institute of Internal Audit in 2005. He previously served several positions including deputy director of the Comprehensive Bureau of the NAO, director of the Foreign Funds and Foreign Affairs Audit Bureau, director-general of the Financial Audit Department of the NAO, director of the General Office of the NAO and Head of NAO's Discipline Group directly affiliated with the Central Party Discipline Committee. He graduated from Hebei College of Finance and Economics.

### **Miao Gengshu, External Supervisor**

Mr. Miao has served as external supervisor of Industrial and Commercial Bank of China Limited since October 2005. He is currently a member of the 10th National People's Political Consultative Conference (NPPCC), a member of the Foreign Affairs Committee of the NPPCC, president of China Council for International Investment Promotion, chairman of the board of directors of China National Foreign Trade Transportation (Group) Corporation, external director of China Railway Communication Co., Ltd., chairman of Chinese side of the China and Brazil Entrepreneur Committee and vice president of the China International Trade Society. He previously served several positions including deputy director of the Shanghai Foreign Economics and Trade Commission, president of the China Minmetals Corporation. He graduated from Tianjin Foreign Trade College.

### **Zhang Wei, Supervisor**

Mr. Zhang has served as employee supervisor of Industrial and Commercial Bank of China Limited since August 2006. He joined ICBC in 1994, and has served as general manager of ICBC Legal Affairs Department since 2004. He previously served several positions including vice general manager of ICBC Legal Affairs Department. Currently, he is also the deputy director and arbitrator of the Finance Committee of China International Economic and Trade Arbitration Commission, and council member of China Urban Finance Society. He graduated from Northeast Normal University, received a Master's degree in law from Jilin University, and a Doctorate degree in law from Peking University.

### **Zhang Qu, Vice President**

Mr. Zhang has served as Vice President of Industrial and Commercial Bank of China Limited since October 2005. He joined ICBC in 1985, and was appointed as Vice President of ICBC in November 2000. He previously served several positions at ICBC including president of ICBC Hangzhou Branch, president of ICBC Zhejiang Branch and president of ICBC Guangdong Branch. He graduated from Ji'nan University and received a Doctorate degree in economics.

### **Wang Lili (Female), Vice President**

Ms. Wang has served as Vice President of Industrial and Commercial Bank of China Limited since October 2005. She was appointed as vice president upon joining Industrial and Commercial Bank of China in November 2000. She previously served several positions including vice general manager of the Credit Department One of Bank of China, and general manager of the Credit Management Department of Bank of China, assistant to president of Bank of China. She was also vice chairman of the board of directors of ICBC (Asia) and chairman of the board of directors of ICBC (London). Ms. Wang graduated from Nankai University and received an MBA degree from University of Birmingham, UK.

### **Li Xiaopeng, Vice President**

Mr. Li has served as Vice President of Industrial and Commercial Bank of China Limited since October 2005. He joined ICBC in 1984, and was appointed as vice president of ICBC in September 2004. Mr. Li previously served several positions including vice president of ICBC Henan Branch, general manager of the Banking Department of ICBC Head Office, president of ICBC Sichuan Branch, vice president of the China Huarong Asset Management Corporation, and assistant to president of ICBC and president of ICBC Beijing Branch. He graduated from Zhengzhou University and received a Doctorate degree in economics from Wuhan University.

### **Liu Lixian, Secretary of Party Discipline Committee**

Mr. Liu has served as Secretary of Party Discipline Committee of Industrial and Commercial Bank of China since May 2005. He was Vice President of the China Huarong Asset Management Corporation in September 2003. He joined ICBC in 2005. He previously served several positions including deputy director of the Bribery and Corruption Inspection Department of the Supreme People's Procuratorate, deputy director of its General Bureau of the Anti-bribery and Corruption, director of its Inspection Technology Bureau, and Director of its Inspection Theory Research Institute. He graduated from Jilin University.

**Yi Huiman, Member of Senior Management & President of Beijing Branch**

Mr. Yi has served as a member of senior management of Industrial and Commercial Bank of China and concurrently president of ICBC Beijing Branch since June 2005. He joined ICBC in 1985, and was appointed as president of ICBC Jiangsu Branch in October 2000. He previously served several positions at ICBC including vice president of ICBC Zhejiang Branch and vice president of ICBC Jiangsu Branch. He graduated from Hangzhou College of Electronics and Hangzhou Financial Management Cadre School.

**Wei Guoxiong, Chief Risk Officer**

Mr. Wei has served as Chief Risk Officer of Industrial and Commercial Bank of China since July 2006. He joined ICBC in 1987, and has served as general manager of ICBC's credit management department since 2001. He previously served several positions at ICBC including acting president of ICBC Zhejiang Wenzhou Branch, vice president of ICBC Zhejiang Branch and general manager of Industrial and Commercial Credit Department of the Head Office. He graduated from Tianjin University of Finance and Economics, and received a Master's degree in economics.

**Pan Gongsheng, Secretary of the Board of Directors**

Mr. Pan has served as Secretary of the Board of Directors of Industrial and Commercial Bank of China Limited since October 2005. He joined ICBC in 1993, and was appointed as general manager of the Financial Planning Department from June 2004 to November 2005, and he took up the position of director of ICBC Restructuring Office from December 2004 to March 2007 and director of ICBC Board of Directors' Office from October 2005 to March 2007. He previously served several positions at ICBC including vice general manager of Human Resources Department of ICBC, vice president of ICBC Shenzhen Branch, vice general manager of Financial Planning Department of the Head Office. He graduated from Renmin University of China where he received a Doctorate degree in economics. He has conducted postdoctoral research at University of Cambridge, UK.

Mr. Fu Zhongjun, Mr. Kang Xuejun and Mr. Song Zhigang were nominated by the MOF to be the non-executive directors of the Bank. Mr. Wang Wenyan, Ms. Zhao Haiying and Mr. Zhong Jian'an were nominated by Huijin to be non-executive directors of the Bank. Mr. Christopher A. Cole was nominated by Goldman Sachs to be non-executive director of the Bank. The MOF, Huijin and Goldman Sachs have equity interests in the Bank. Please refer to the Report of Board of Directors: Interests in Shares, Underlying Shares, and Debentures Held by Substantial Shareholders and Other Persons for such interests.

## **Appointment and Removal of Directors, Supervisors and Senior Management**

During the reporting period, a resolution was passed at the 2nd Extraordinary General Meeting in 2006 held on 28 April 2006 to appoint Mr. Christopher A. Cole as a non-executive director of the 1st Session of the Board of Directors. The qualification of Mr. Christopher A. Cole was approved by the China Banking Regulatory Committee (“CBRC”) on 1 June 2006. No director resigned during the reporting period.

On 17 August 2006, the Labor Union Work Committee of the Bank held a meeting in Beijing with the participation of disinterested parties. Mr. Zhang Wei, general manager of the Legal Affairs Department of the Head Office, was elected as the employee supervisor of the Bank at that meeting. No supervisor resigned during the reporting period.

The 10th meeting of the Board of Directors was held on 29 June 2006 at which the resolution to appoint Mr. Wei Guoxiong as the Chief Risk Officer was passed.

No member of the senior management resigned during the reporting period.

## **Remuneration for the Year**

For detailed remuneration for directors, supervisors and senior management members, please refer to the section headed “Brief Particulars of Directors, Supervisors and Senior Management”.

## **The Period Unexpired of Service Contracts of Directors and Supervisors Proposed for Re-election**

None of the Bank’s directors or supervisors will be re-elected at the forthcoming annual general meeting of shareholders.

## **Interests of Directors and Supervisors in Material Contracts**

During the reporting period, directors and supervisors did not have direct or indirect substantial interests in the material contracts entered into by the Bank, affiliated companies or subsidiaries.

## Basic Information on Employees

At the end of 2006, the Bank had 351,448 employees, representing a decrease of 10,175 persons from the end of 2005. Among the employees, 31,741 are corporate banking personnel, 119,219 are personal banking personnel<sup>(1)</sup>, 4,284 are treasury operations personnel, 91,095 are financial and accounting personnel<sup>(1)</sup>, and 105,109 staff in other specialisations. In terms of academic achievements, 4,588 employees have received achievements of master's degree or above, accounting for 1.3% of all employees; 115,339 employees have received bachelor's degree, accounting for 32.8% of all employees; 146,089 employees have received associate degree, accounting for 41.6% of all employees; and 85,432 employees have qualifications below associate degree, accounting for 24.3% of all employees.

The Bank had 16,997 domestic institutions and 98 institutions abroad, a decrease of 1,767 and 8 from 2005 respectively.

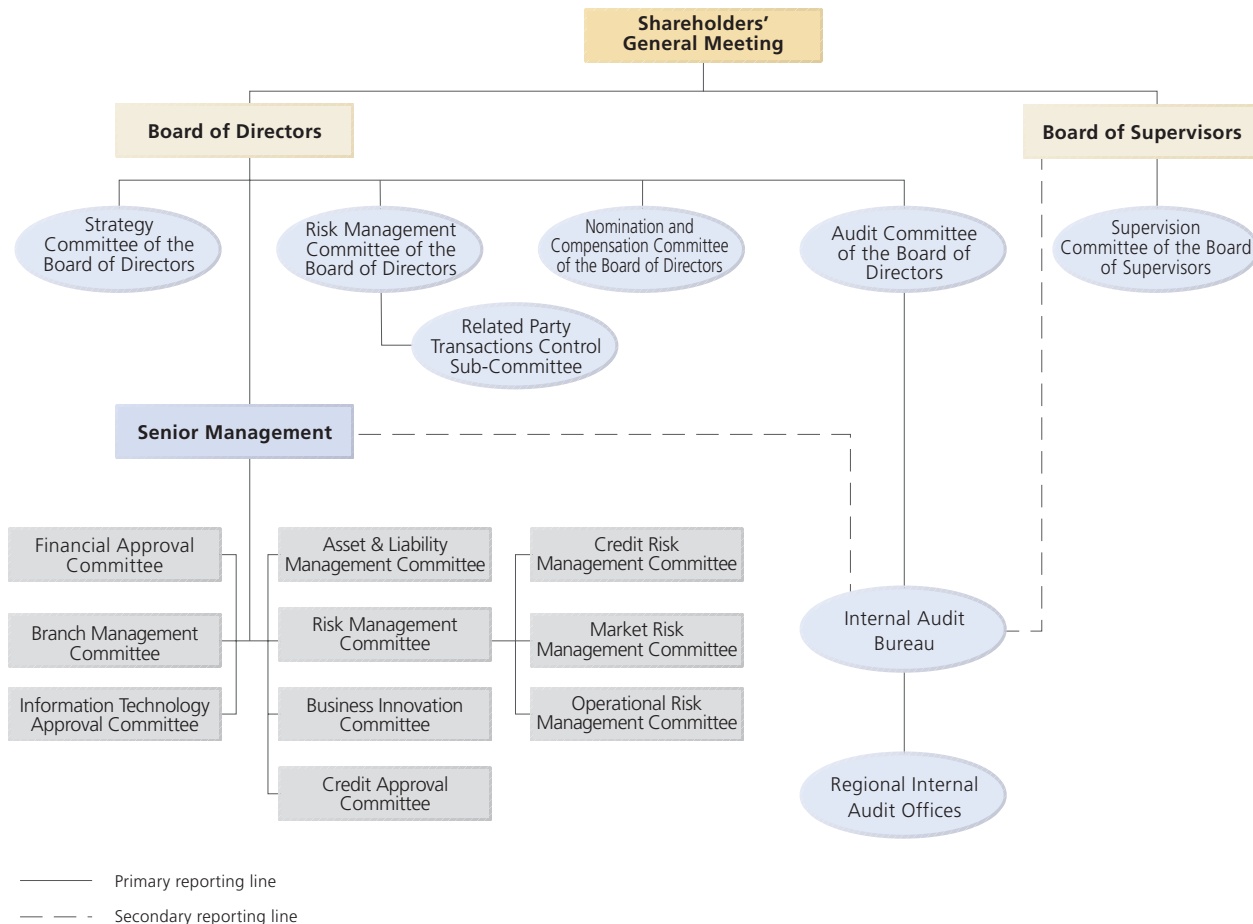
	As at 31 December 2006		As at 31 December 2005	
	Institution (quantity)	Percentage to the Total (%)	Institution (quantity)	Percentage to the Total (%)
Head Office	1	—	1	—
Institutions and Branches Directly Controlled by the Head Office	19	0.1	19	0.1
Yangtze River Delta	2,450	14.3	2,707	14.3
Pearl River Delta	2,017	11.8	2,199	11.6
Bohai Rim	2,833	16.6	3,202	17.0
Central China	3,752	22.0	4,147	22.0
Northeastern China	1,869	10.9	2,025	10.7
Western China	4,056	23.7	4,464	23.7
<b>Total Number of Domestic Institutions</b>	<b>16,997</b>	<b>99.4</b>	<b>18,764</b>	<b>99.4</b>
<b>Total Number of Institutions Abroad</b>	<b>98</b>	<b>0.6</b>	<b>106</b>	<b>0.6</b>
<b>Total Number of Institutions</b>	<b>17,095</b>	<b>100.0</b>	<b>18,870</b>	<b>100.0</b>

Note: Refer to note 39 to the Financial Statements: Segment Information for the geographical segments as set out in the table.

Note: (1) Inclusive of bank tellers in branches and sub-branches.

# Corporate Governance Report

## Corporate Governance Framework



ICBC believes that the maintenance of a high standard of corporate governance and the adoption of an advanced corporate governance model by international standards is one of the key factors to develop the Bank into a pre-eminent international modern financial institution. To this end, the Bank strictly complies with the laws and regulations of the places where it operates its business as well as the regulations and guidelines stipulated by regulatory authorities as People’s Bank of China (“PBOC”), CBRC, CSRC, Hong Kong Monetary Authority, Hong Kong Securities and Futures Commission, Shanghai Stock Exchange, and SEHK, and actively observes the best practices of international and domestic standards of corporate governance.

Pursuant to the requirements of the Company Law of the People's Republic of China (the "Company Law"), the Securities Law of the People's Republic of China (the "Securities Law") and other relevant laws and regulations, the Bank established its corporate governance structure which is formed by the Shareholders' General Meeting, the Board of Directors, the Board of Supervisors and the senior management, and formed a working mechanism under which the organisation of power, the organisation of decision-making, the organisation of supervision and the senior management shall fulfill their own duties and effectively cooperate with and supervise one another. The Board of Directors has established five special committees, namely, the Strategy Committee, the Audit Committee, the Nomination and Compensation Committee, the Risk Management Committee and the Related Party Transactions Control Sub-Committee. The Board of Supervisors has a Supervision Committee. Each of the committees established by the Board of Directors, the Board of Supervisors and the senior management has detailed terms of reference that specifically define the responsibilities and reporting lines, ensuring that each committee operates in a compliant and efficient manner.

During the reporting period, the Bank strictly complied with the Company Law, the Securities Law, the Law of the People's Republic of China on Commercial Banks (the "Law on Commercial Banks") and other relevant laws, and continued to improve its corporate governance structure in accordance with the relevant laws and regulations promulgated by regulatory authorities and having taken the Bank's actual condition into account:

1. The Bank further revised its Articles of Association and the Procedural Rules of the Shareholders' General Meeting.
2. In order to further define the scope of decision-making authority of the Board of Directors and the senior management under the corporate governance structure, the Bank considered its own particular situation and formulated the plan on authorisation given by the Shareholders' General Meeting to the Board of Directors and the plan on authorisation given by the Board of Directors to the President.
3. In order to maximise the capabilities of the special committees under the Board of Directors, the Bank revised the responsibilities and restructured the composition of the special committees under the Board in a timely manner in accordance with the requirements of the regulatory authorities in Mainland China and Hong Kong regarding the establishment of special committees under the Board. The special committees after the restructuring are shown in the corporate governance framework chart above.
4. In order to build a comprehensive risk management system and to strengthen and centralise the leadership of risk management, the Bank set up the post of Chief Risk Officer ("CRO") and appointed Mr. Wei Guoxiong as the CRO.
5. In order to establish and improve its incentive mechanism, the Bank formulated a Share Appreciation Rights plan which facilitates the achievement of the Bank's strategic objectives and the maximisation of shareholders value.
6. The Bank further improved its information disclosure and investors relations management, actively explored channels to communicate with and establish strategic cooperation with domestic and overseas investors, and continuously improved its standards of corporate governance level.

## Compliance with the Code of Corporate Governance Practices (Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited)

In 2006, the Bank applied the principles stipulated in the Code of Corporate Governance Practices (the “Code”) (Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Hong Kong Listing Rules”) in various rules and regulations relating to corporate governance of the Bank. In particular, the spirit of the principles and Code Provisions of the Code have been reflected in the Bank’s Articles of Association and procedural rules of Shareholders’ General Meeting, Board of Directors and its special committees, and the Bank has complied with all the Code Provisions.

### Board of Directors and Special Committees

#### Composition of Board of Directors

The Board of Directors consists of 14 directors, including four executive directors, namely Mr. Jiang Jianqing, Mr. Yang Kaisheng, Mr. Zhang Furong and Mr. Niu Ximing, seven non-executive directors, namely Mr. Fu Zhongjun, Mr. Kang Xuejun, Mr. Song Zhigang, Mr. Wang Wenyan, Ms. Zhao Haiying, Mr. Zhong Jian’an, and Mr. Christopher A. Cole, and three independent non-executive directors, namely Mr. Leung Kam Chung, Antony, Mr. John L. Thornton and Mr. Qian Yingyi.

#### Responsibilities and Operation of the Board of Directors

The powers of the Board of Directors include, among others:

1. Convene and report to the Shareholders’ General Meeting;
2. Implement resolutions of the Shareholders’ General Meeting;
3. Decide on business plans, investment plans and development strategies of the Bank;
4. Formulate annual budgets and final account of the Bank;
5. Formulate profit distribution plans and recovery of loss;
6. Formulate plans for increase or decrease of registered capital of the Bank;
7. Formulate fundamental management rules for risk management, internal control, connected transactions, and supervise the implementation of these rules;
8. Appoint or dismiss, based on the President’s nomination, Vice Presidents and other senior management members who shall be appointed or dismissed by the Board (except the secretary to the board) according to relevant laws, and decide on their remuneration, rewards and sanctions;
9. Decide or authorise the President to set up tier-1 departments and sections of the Head Office, domestic tier-1 branches, branches or subsidiaries directly controlled by the Head Office, and overseas operations; and
10. Other powers delegated by the Shareholders’ General Meeting or set out in the Articles of Association.

### Meeting of the Board of Directors

During the reporting period, the Bank held 12 meetings of the Board of Directors, of which 11 meetings were held in the form of physical meetings and 1 meeting was held in the form of circulation of written resolutions. The Board passed 65 resolutions including the introduction of strategic investors, amendment of the Articles of Association, restructuring of special committees of the Board of Directors and the Bank's initial public offering and listing. The attendance of directors in board meetings is shown as below:

Members of the Board of Directors	Actual attendance/ Number of meetings requiring attendance	Attendance rate (%)
Jiang Jianqing	12/12	100
Yang Kaisheng	12/12	100
Zhang Furong	12/12	100
Niu Ximing	12/12	100
Fu Zhongjun	12/12	100
Kang Xuejun	12/12	100
Song Zhigang	12/12	100
Wang Wenyan	12/12	100
Zhao Haiying	12/12	100
Zhong Jian'an	12/12	100
Christopher A. Cole <sup>(1)</sup>	7/7	100
Leung Kam Chung, Antony	11/12	92
John L. Thornton	12/12	100
Qian Yingyi	12/12	100

Note: (1) Mr. Christopher A. Cole was elected the director of ICBC at the Second Extraordinary Shareholders' General Meeting of 2006 held on 28 April 2006, and his qualification was approved by the CBRC on 1 June 2006.

### Powers and Functions of Senior Management

The powers of the Board of Directors and senior management shall be strictly separated pursuant to the Bank's Articles of Association and other constitutional documents.

The President shall, according to the authority given by the Board of Directors, decide on issues of business management and decision making within his scope of authority. The President is entitled to exercise the following powers: take charge of the Bank's business management, organise the implementation of the Board resolutions; submit the Bank's business and investment plans to the Board of Directors and implement these plans upon approval of the Board; prepare the Bank's fundamental management rules, annual budget and final accounts, profit distribution plan and recovery of loss, plans for increase or decrease of registered capital, plans for bond issuance or listing, and make recommendations to the Board.

### Responsibilities of Directors in respect of Financial Statements

Directors are responsible for supervising the preparation of financial statements for each financial period, ensuring that the financial statements truthfully and accurately reflect the Group's business conditions, performance and cash flow in the period concerned. When preparing the financial statements for the year ended on 31 December 2006, directors have appointed accountants with appropriate qualifications, consistently applied applicable accounting policies and made prudent and reasonable judgment and estimation.

The Bank has published annual results within the time limit of four months after the end of the relevant period.

### Independence and Qualification of Independent Non-executive Directors

The Bank's independent non-executive directors do not have business or financial interests in the Bank and its subsidiaries, and they have not assumed any managerial post in the Bank, and hence their independence is assured. The Bank has received the annual confirmation on independence from each of the independent non-executive directors and considered that they are independent.

The Bank's independent non-executive directors attended the meetings of the Board of Directors and special committees in earnest and gave opinions proactively, and strengthened communications with and guidance for the management by means of informal discussions. They also respectively assumed the posts of chairmen of the Audit Committee, the Nomination and Compensation Committee, the Risk Management Committee and the Related Party Transactions Control Sub-Committee of the Board, and constituted a majority of the Audit Committee. The Related Party Transactions Control Sub-Committee is formed solely by independent non-executive directors.

### Special Committees of the Board of Directors

During the reporting period, the Bank restructured the composition and revised the responsibilities of the special committees established under the Board of Directors according to the "Proposal on Restructuring the Composition and Related Responsibilities of Special Committees established under the Board of Directors of ICBC" as adopted at the 10th meeting of the Board of Directors held on 29 June 2006. As of 31 December 2006, the Board of Directors consists of five special committees, i.e. the Strategy Committee, the Nomination and Compensation Committee, the Audit Committee, the Risk Management Committee, and the Related Party Transactions Control Sub-Committee (established under the Risk Management Committee).

Particulars about each committee are described as below:

#### • Strategy Committee

The Strategy Committee of the Board of Directors consists of 14 directors, including Mr. Jiang Jianqing (Chairman of the Bank), Mr. Yang Kaisheng (Vice Chairman of the Bank), Mr. Zhang Furong, Mr. Niu Ximing, Mr. Fu Zhongjun, Mr. Kang Xuejun, Mr. Song Zhigang, Mr. Wang Wenyan, Ms. Zhao Haiying, Mr. Zhong Jian'an, Mr. Christopher A. Cole, Mr. Leung Kam Chung, Antony, Mr. John L. Thornton, and Mr. Qian Yingyi. Mr. Jiang Jianqing assumes chairman of the Strategy Committee. The Committee is mainly responsible for studying and reviewing the Bank's strategic development plan, business and institutional development plan, major investment and financing plan and other major matters that are critical to its development, and making recommendations to the Board.

During the reporting period, the Strategy Committee (including the Strategy and Nomination Committee before the restructuring) attached significant importance to the formulation of development strategies, promoted the gradual implementation of strategic plan, and studied major strategic issues. It held six meetings during the period and passed 14 resolutions including the multi-national operation and overseas business development plan and the IT development strategy for the 11th Five-Year Plan period, and listened to the report on the business operations of investment banking.

#### • Audit Committee

The Audit Committee of the Board of Directors consists of five directors, including Mr. Leung Kam Chung, Antony, Mr. John L. Thornton, Mr. Qian Yingyi, Mr. Kang Xuejun and Ms. Zhao Haiying. The chairman of the Audit Committee is Leung Kam Chung, Antony, an independent non-executive director of the Bank. The committee is mainly responsible for supervising, inspecting and evaluating the Bank's internal control, financial information and internal audit.

During the reporting period, the Audit Committee held six meetings, at which it reviewed seven proposals, including the Bank's internal audit development plan and outline of internal audit for 2006, listened to numerous work reports and annual audit reports of internal audit department, regularly considered, inspected and guided the progress of internal audit, reviewed the completeness of financial statements, and monitored the financial reporting system and procedures. The Audit Committee also listened to the work report of external auditors on a regular basis, and conducted an overall evaluation on the independence, professionalism and performance of the Bank's existing external auditors.

#### ATTENDANCE OF MEMBERS OF THE AUDIT COMMITTEE IN MEETINGS IN 2006

Members of the Audit Committee	Actual attendance/ Number of meetings requiring attendance	Attendance rate (%)
Leung Kam Chung, Antony (chairman)	6/6	100
John L. Thornton	5/6	83
Qian Yingyi	6/6	100
Zhao Haiying	6/6	100
Kang Xuejun	6/6	100
Fu Zhongjun <sup>(1)</sup>	3/3	100
Wang Wenyan <sup>(1)</sup>	3/3	100

Note: (1) Mr. Fu Zhongjun and Mr. Wang Wenyan were members of the Audit Committee before the restructuring and no longer assume the position after the restructuring.

#### • Nomination and Compensation Committee

The Bank's Nomination and Compensation Committee of the Board of Directors consists of six directors, including Mr. Qian Yingyi (director), Mr. Yang Kaisheng (vice chairman), Mr. Leung Kam Chung, Antony, Mr. John L. Thornton, Mr. Wang Wenyan and Mr. Fu Zhongjun. Mr. Qian Yingyi, independent non-executive director of the Bank, is the chairman of the Committee. The Committee is mainly responsible for reviewing and supervising the implementation of the Bank's remuneration and performance evaluation system, making recommendations to the Board of Directors on selection procedures, qualifications, remuneration system and incentive plans for the Bank's directors, supervisors and senior management personnel, and evaluating the performance and conduct of directors and senior management members.

During the reporting period, the Nomination and Compensation Committee (including the Compensation Committee before the restructuring) held three meetings. Amongst the three meetings held, two meetings were held to discuss matters relating to remuneration, and three proposals including the Bank's Share Appreciation Rights plan and the restructuring of the composition of the committees under the Board were reviewed and approved. The committee also listened to the report on the remuneration and equity incentive for the senior management.

#### **ATTENDANCE OF MEMBERS OF THE NOMINATION AND COMPENSATION COMMITTEE IN MEETINGS IN 2006:**

<b>Members of the Nomination and Compensation Committee</b>	<b>Actual attendance/ Number of meetings requiring attendance</b>	<b>Attendance rate (%)</b>
Qian Yingyi (chairman)	3/3	100
Yang Kaisheng	2/2	100
Leung Kam Chung, Antony	1/2	50
John L. Thornton	2/2	100
Wang Wenyan	3/3	100
Fu Zhongjun	2/2	100
Zhang Furong <sup>(1)</sup>	1/1	100
Niu Ximing <sup>(1)</sup>	1/1	100
Song Zhigang <sup>(1)</sup>	1/1	100
Zhong Jian'an <sup>(1)</sup>	1/1	100

Note: (1) Mr. Zhang Furong, Mr. Niu Ximing, Mr. Song Zhigang and Mr. Zhong Jian'an were members of the Compensation Committee before the restructuring and are not members of the Nomination and Compensation Committee after the restructuring.

The Nomination and Compensation Committee nominates candidates for director elections in accordance with the formalities and procedures stipulated in the Articles of Association. The candidates shall comply with the laws, administrative rules, regulations, and the Articles of Association of the Bank, perform their duties diligently, have a thorough understanding of the Bank's business operations and management, and agree to submit to the supervision by the Board of Supervisors on their performance of responsibilities.

Apart from the requirements above, candidates for the position of the Bank's independent non-executive directors shall possess outstanding professional capabilities and have good reputation, meet the qualifications of becoming director, independently perform responsibilities, have basic knowledge of operations of a listed company, be familiar with the operations and management of commercial banks, and have not less than eight years of relevant work experience.

#### **• Risk Management Committee**

The Risk Management Committee of the Board of Directors consists of nine directors, including Mr. Leung Kam Chung, Antony, Mr. Zhang Furong, Mr. Niu Ximing, Mr. Kang Xuejun, Mr. Song Zhigang, Mr. Zhong Jian'an, Mr. Christopher A. Cole, Mr. John L. Thornton and Mr. Qian Yingyi. Leung Kam Chung, Antony, independent non-executive director of the Bank, is the chairman of the committee. The committee is primarily responsible for reviewing and determining the Bank's strategy and policy in relation to risk management, procedures and internal control process, and the supervision and evaluation of the performance of the senior management in respect of risk management.

During the reporting period, the Risk Management Committee attached importance to the overall risk management of the Bank, and provided guidance on strengthening the establishment of the Bank's internal control system. It held four meetings during the period, at which it discussed issues including the status of the Bank's risk management system and regularly listened to the report on risk management of the Bank.

- Related Party Transactions Control Sub-Committee

The Related Party Transactions Control Sub-Committee consists of three directors, including Mr. Leung Kam Chung, Antony, Mr. John L. Thornton and Mr. Qian Yingyi. Leung Kam Chung, Antony, independent non-executive director of the Bank, is the chairman of the sub-committee. The sub-committee is primarily responsible for identifying the Bank's related parties, and reviewing and recording connected transactions.

During the reporting period, the Related Party Transactions Control Sub-Committee held two meetings, at which the matters relating to the basic code for the management of the Bank's connected transactions were considered and discussed.

## Board of Supervisors and its Special Committee

### Composition of the Board of Supervisors

The Articles of Association of the Bank prescribes that the Board of Supervisors shall consist of 5-7 members, including supervisors who are representatives of shareholders, external supervisors and supervisors who are employees' representatives. Supervisors who are employees' representatives should constitute no less than 1/3 of the total supervisors, and there should be at least two external supervisors. Supervisors who are shareholders' representatives and external supervisors are elected and removed by the Shareholders' General Meeting. Supervisors who are employees' representatives are elected and removed by employees through democratic procedures. The term of office of supervisors is three years. A supervisor may renew his or her term by offering himself or herself for re-election.

At present, the Board of Supervisors consists of five members: Mr. Wang Weiqiang, Chairman of the Board of Supervisors, Ms. Wang Chixi, Mr. Wang Daocheng, Mr. Miao Gengshu and Mr. Zhang Wei.

### Responsibilities and Operation of the Board of Supervisors

The powers of the Board of Supervisors include the following:

1. supervising the performance by directors and senior management members of their duties and the fulfillment of their responsibilities, and making inquiries with directors and senior management members;
2. supervising the performance of the Board of Directors and senior management;
3. requesting directors and senior management members to rectify any actions damaging the Bank's interests;
4. proposing removal of or initiating legal proceedings against directors or senior management members who have violated laws, administrative regulations and rules, the Articles of Association or resolutions of shareholders' general meeting;

5. conducting audits on outgoing directors and senior management members when necessary;
6. examining and supervising the Bank's financial matters;
7. examining financial information such as financial report, business report and profit distribution plan as submitted to the Shareholders' General Meeting by the Board of Directors and may engage certified public accountants and practicing auditors in the Bank's name to re-examine such information should doubtful issues arise;
8. examining and supervising business decisions, risk management and internal control when necessary and providing guidance to our internal audit departments;
9. formulating measures for the assessment of supervisors, assessing the performance and conduct of supervisors, and reporting to the Shareholders' General Meeting;
10. making proposals for the Shareholders' General Meeting;
11. making proposals in relation to the convening of extraordinary shareholders' general meetings, and convening and presiding over the extraordinary shareholders' general meetings in case the Board of Directors fails to perform its duty of convening shareholders' general meeting;
12. making proposals in relation to the convening of interim meetings of the Board of Directors; and
13. other functions and powers as may be stipulated by laws, administrative regulations, rules or the Articles of Association of the Bank or authorised by the Shareholders' General Meeting.

The Board of Supervisors discusses official business at the meeting of the Board of Supervisors which includes regular meetings and special meetings. The regular meetings should be held at least 4 times a year and such meetings shall, in principle, be held before the disclosure of periodical reports.

As the day-to-day administrative body for the Board of Supervisors, the Board of Supervisors' Office is responsible for the organisation of detailed supervisory work and also the meetings of the Board of Supervisors and its special committee.

### Supervision Committee

The Supervision Committee is the special committee of the Board of Supervisors, which operates in accordance with the authorisation from the Board of Supervisors and reports to the Board of Supervisors. It consists of at least three supervisors.

The Supervision Committee has one Head Member, which is assumed by an external supervisor. The Head Member is nominated by the Chairman of the Board of Supervisors, and is appointed or removed by the Board of Supervisors. At present, the Supervision Committee consists of three supervisors, Mr. Wang Daocheng, Ms. Wang Chixi and Mr. Miao Gengshu. Mr. Wang Daocheng is now the Head Member of the Supervision Committee. The daily operation of the Supervision Committee is conducted by the Office of the Board of Supervisors.

The responsibilities of the Supervision Committee include:

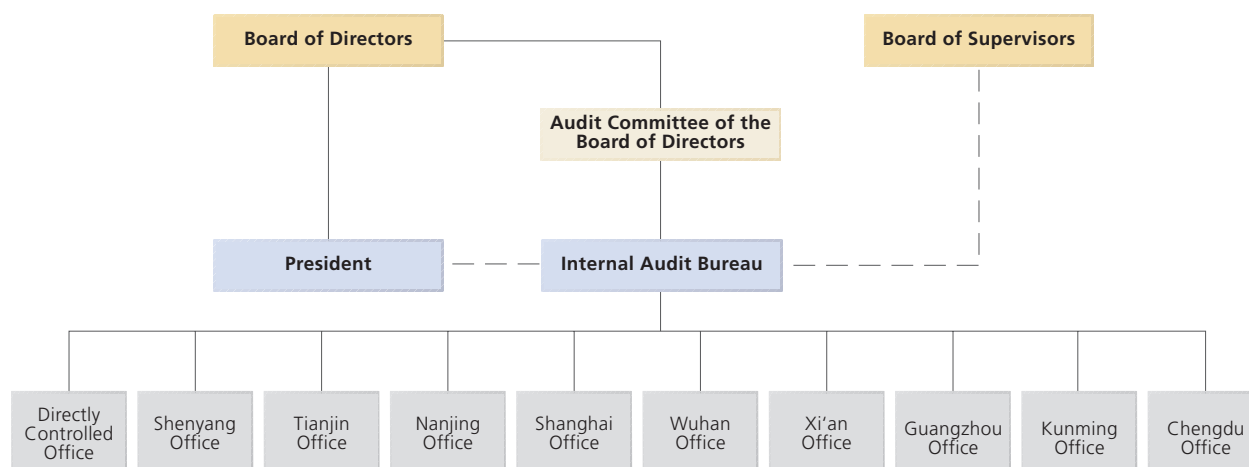
1. formulating plans for the inspection and supervision of the financial activities of the Bank;
2. formulating plans for the audits on serving and outgoing directors, President and other senior management members;
3. formulating plans for the audits on the business policies, risk management and internal control of the Bank when necessary; and
4. other functions and duties as may be authorised by the Board of Supervisors.

For more information of the Board of Supervisors and the Supervision Committee, please refer to the Report of the Board of Supervisors — Meetings of the Board of Supervisors and its Special Committee.

## Internal Audit

Under the new corporate governance framework, the internal audit bureau performs the function of supervising and evaluating the risk management, internal control and corporate governance results of the whole bank, and directly reports to Board of Directors. In 2006, ICBC's independent hierarchial internal audit system was fully put into operation, and the internal audit organisation system, institutional framework, management mechanism and reporting processes were further improved.

The following chart shows the internal audit management and reporting structure:



In 2006, ICBC focused on planning the development strategy of internal audit, established basic institutional framework, regulated working procedure and mechanism, promoted advanced technology and methods, and improved the quality and competence of audit personnel. We focused on risk-based audit on major businesses concerned by the Board of Directors and the Management and those in major risk aspects, essentially evaluated on entire and systematic risk monitoring level. In the reporting period, the Bank completed annual audit assessments on domestic and overseas divisions in 2005, and conducted risk audit and supervision in respect of credit business, information technology system, e-banking, financial information disclosure and new business.

## Internal Control

To ensure the security and integrity of assets, accuracy and reliability of financial data, we never cease our efforts in enhancing our capabilities in preventing and defending all types of risks. The Bank has formulated and implemented a series of internal control regulations and procedures in accordance with the relevant laws, regulations and the Articles of Association of the Bank. In 2006, the Bank formulated a preliminary internal control mechanism, which covered all business processes and operational procedures of all institutions, departments and positions.

The Board of Directors is responsible for formulating the basic rules for internal control and supervising the implementation of such rules. The Board of Directors discharges its responsibilities in relation to internal control management and reviews the effectiveness of internal control system through the Audit Committee and the Risk Management Committee.

The Internal Audit Bureau and the Regional Internal Audit Offices adopt a hierarchical management system, and report to the Board of Directors. The Internal Control and Compliance Department is established in the Head Office and branches at various levels, and is responsible for the organisation, promotion and coordination of internal control, the management of operational risk, the management of compliance and the regular audits.

In 2006, the Bank further improved the integrity, rationality and effectiveness of internal control system. The internal audit departments focused on risks, attached great importance to key risk areas and audited and evaluated the sufficiency and effectiveness of internal control, risk management and corporate governance in domestic and overseas branches. The internal control and compliance departments at various levels implemented evaluation on internal control of basic banks. Moreover, the Bank established a plan for the construction of internal control system for the next three years and further clarified and refined the tasks, objectives, responsibilities and the secured mechanism for supervision in connection with internal control.

## Chairman and President

Pursuant to code provision of A.2.1 of the Code (Appendix 14 to the Hong Kong Listing Rules) and the Articles of Association of the Bank, the positions of Chairman and President are established as two separate positions, and the Chairman shall not be assumed by the legal representative or the person-in-charge of the controlling shareholder.

Mr. Jiang Jianqing is the Chairman of the Bank. He is also the Bank's legal representative, responsible for formulating business strategies and overall development.

Mr. Yang Kaisheng is the President of the Bank and is responsible for supervising the Bank's daily management of business operations. The President is appointed by and reports to the Board of Directors, and shall perform his responsibilities as stipulated in the Bank's Articles of Association and as authorised by the Board of Directors.

## Term of Directors

Pursuant to the Bank's Articles of Association, the Bank's directors include executive directors and non-executive directors, and non-executive directors include independent directors. The directors are elected by the Shareholders' General Meeting with a term of three years. The term commences from the date as determined by the banking regulatory authority under the State Council. Directors may be re-appointed through re-election upon expiry of their term.

## Securities Transactions of Directors and Supervisors

Based on enquiries made with all directors and supervisors, the Bank is satisfied that by the end of 2006, all directors and supervisors have complied with the provisions on securities transactions of directors and supervisors set forth in the Appendix 10 to the Hong Kong Listing Rules.

## Remuneration for Auditors

At the Annual Shareholders' General Meeting held on 31 July 2006, the Bank adopted the "Proposal on Engagement of Auditors", and approved the engagement of Ernst & Young Hua Ming to be the domestic auditors of the Bank for 2006 and for auditing the financial statements prepared by the Bank in accordance with the Generally Accepted Accounting Principles of the People's Republic of China; and the engagement of Ernst & Young to be the Bank's international auditors for auditing the financial statements prepared by the Bank in accordance with IFRS. It also authorised the Board of Directors to approve the fees for the audit.

In 2006, due to the initial public offering and listing of the Bank's shares in Shanghai and Hong Kong, the Bank paid A-share and H-share offering service fees in a total sum of RMB209.65 million to Ernst & Young Hua Ming and Ernst & Young. These fees were netted against the IPO proceeds and were accounted for in capital reserve.

During the reporting period, the Group paid Ernst & Young Hua Ming and Ernst & Young a total fee of RMB185.85 million for the audit of financial statements, including RMB70 million for interim audit and RMB115.85 million for annual audit.

During the reporting period, the Group paid fees amounted to RMB1.87 million for non-audit services to Ernst & Young Hua Ming and Ernst & Young, and the Group did not engage Ernst & Young Hua Ming or Ernst & Young for the provision of material non-audit services.

## Shareholders' Rights

### Means of Convening Extraordinary Shareholders' General Meeting

According to the Articles of Association and the Procedural Rules of the Shareholders' General Meeting of the Bank, shareholders who individually or jointly hold more than 10% shares of the Bank with voting rights at general meetings (hereinafter referred to as "Proposing Shareholders") have the right to request the Board of Directors in writing to convene an extraordinary shareholders' general meeting. The Board of Directors shall, in accordance with laws, administrative regulations and rules as well as the Articles of Association of the Bank, give a written response on whether it agrees or disagrees to convene such a meeting within 10 days after receiving the request. If the Board agrees to hold such a meeting, a written notice of convening the meeting shall be issued within 5 days after the resolution is made by the Board and 45 days before the meeting. Any alteration to the original request in the meeting notice can only be made after consulting the Proposing Shareholders.

If the Board of Directors disagrees to convene an extraordinary shareholders' general meeting or fails to give a response within 10 days after receiving the request, the Proposing Shareholders shall have the right to propose to the Board of Supervisors in writing for convening an extraordinary shareholders' general meeting.

If the Board of Supervisors agrees to convene an extraordinary shareholders' general meeting, it shall issue a notice of convening the meeting within 5 days after receiving the proposal. Any alteration to the original proposal in the meeting notice can only be made after consulting the Proposing Shareholders.

If the Board of Supervisors fails to issue the meeting notice within the specified period, the Board of Supervisors will be deemed not to convene or preside over the meeting, and shareholders who hold over 10% shares of the Bank individually or jointly for more than 90 consecutive days may convene and preside over the meeting by themselves.

### Procedures for Presenting Proposals for the Shareholders' General Meeting

Shareholders, who hold over 3% of the Bank's shares individually or jointly, shall have the right to present proposals to the Bank for the shareholders' general meeting. The aforesaid shareholders may submit an interim proposal in writing to the Board of Directors 10 days before the date of the shareholders' general meeting. The Board of Directors shall issue a supplementary notice of shareholders' general meeting within 2 days after receiving the proposal, and submit the interim proposal to the Shareholders' General Meeting for consideration. The interim proposal shall contain clearly defined items for discussion and specific matters for decision and shall be within the scope of functions and powers of the Shareholders' General Meeting.

## Shareholder Enquiries

If a shareholder intends to enquire about share transfer, changes of name or address, reporting loss of share certificates and dividend notes and other information concerning the shares held, he/she may write to the Bank at the following address:

A Shares: China Securities Depository and Clearing Corporation Limited, Shanghai Branch  
 36/F, China Insurance Mansion  
 166 East Lujiazui Road, Pudong New Area, Shanghai, PRC  
 Telephone: 86-21-58708888  
 Facsimile: 86-21-58899400

H Shares: Computershare Hong Kong Investor Services Limited  
 1806-1807, 18/F, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong  
 Telephone: (852) 2862-8628  
 Facsimile: (852) 2865-0990 / (852) 2529-6087

## Investor Relations

### Objectives

The Bank's investor relation work is aimed at realising an accurate, timely, clear and interactive communication with investors on the Bank's strategic plan, corporate governance, business performance, financial position and development prospect based on the policy of regulated and sufficient disclosure of information and the principles of honesty, fairness and two-way communication so as to maintain the transparency of corporate governance and the fair market value of the Bank's stock, protect investors' legitimate rights and interests and maximise shareholders' interests.

### Review of 2006

During the reporting period, the Bank successfully presented to global investors its leading market position and achievements in information technology, risk management and product innovation by means of roadshow, reverse roadshow and large-scale promotion activities. The Bank became the first company to list its shares on the stock exchanges in Shanghai and Hong Kong on the same day, and won many awards conferred by many well-known media, such as Asian Finance, International Finance Review, Asia Money, Euromoney, and The Asset. These awards include "Best IPO" and "Best Equity Deal".

In order to provide investors with sound services after the listing, the Bank adopted many measures with a view to providing seamless service in 2006, such as welcoming visits of investors, replying to investors' queries, maintaining website for investors, answering investor service hotline, and establishing facilities for enquiry by email. The Bank endeavoured to follow the best practices of international listed corporations by formulating rules and regulations such as the Measures on Investor Relation Management and established investor relations database with a view to enhancing its level of investor services.

## Prospect

In order to enhance investor service in 2007, the Bank will further improve the methods of communication with investors and enhance investors' understanding of the Bank. The Bank also looks forward to obtaining more support and attention from investors so as to promote the continuous enhancement of its internal value.

## Investor Enquiries

If an investor needs to make enquiries to the Board of Directors, please contact:

Telephone: 86-10-66108608 (Beijing)

Facsimile: 86-10-66106139 (Beijing)

E-mail: [ir@icbc.com.cn](mailto:ir@icbc.com.cn)

Address: Board of Directors' Office, Industrial and Commercial Bank of China Limited, No.55  
Fuxingmennei Avenue, Xicheng District, Beijing, PRC

Postal Code: 100032

## Other Information

The Annual Report is prepared in both Chinese and English languages. You may visit the website of the Bank ([www.icbc-ltd.com](http://www.icbc-ltd.com)) or the website of SEHK ([www.hkex.com.hk](http://www.hkex.com.hk)) to read the English or Chinese version of the Annual Report.

The organisational charts and a summary of the responsibilities of the Bank's Board of Directors and its special committees, Board of Supervisors and its special committee and the senior management is also available at the Bank's website. If you have any question about obtaining the Annual Report or accessing the documents on our website, please call our hotline 86-10-66108608.

## **Introduction to Shareholders' General Meeting**

### **Powers of Shareholders' General Meeting**

The Shareholders' General Meeting is the organisation of power of the Bank, the duties of which include but are not limited to the following:

1. Deciding on the Bank's business policies and major investment plans;
2. Electing, replacing and appointing directors, supervisors who are shareholders' representative and external supervisors;
3. Reviewing and approving the reports of the Board of Directors and the Board of Supervisors;
4. Deciding on the compensation for directors and supervisors and matters in relation thereto;
5. Reviewing and approving the Bank's annual budget, final accounts, profit distribution plans and plans for recovery of losses;
6. Passing resolutions on the Bank's increase or reduction of registered capital, merger, de-merger, dissolution, liquidation or change of legal form, issuance of corporate bonds or other marketable securities and listing and repurchase of the Bank's shares;
7. Amending the Bank's Articles of Association.

### **Details of Convened Shareholders' General Meeting**

During the reporting period, the Bank convened and held one annual shareholders' general meeting and five extraordinary shareholders' general meetings. A total of 22 resolutions were passed at these meetings. On 31 July 2006, the Bank held the 2005 Annual Shareholders' General Meeting. Each meeting was convened in compliance with the relevant legal procedures which safeguarded shareholders' participation and exercise of rights. These meetings were held in the presence of lawyers who also issued legal opinions.

## Report of the Board of Directors

### Principal Business

The principal business of ICBC is the provision of banking and related financial services.

### Profits and Dividends Distribution

With the approvals of the extraordinary shareholders' general meetings held on 31 July and 22 September 2006, respectively, ICBC distributed 2006 interim cash dividends of RMB18,593 million to shareholders appeared on the register of shareholders on 30 June 2006, and resolved to distribute special dividends of RMB10,146 million to shareholders appeared on the register of shareholders on 22 October 2006.

The Board of Directors of the Bank proposed a dividend of RMB0.016 per share (including tax) in cash for the financial year ended 31 December 2006 (totalled RMB5,344 million) which will be subject to approval at the forthcoming annual general meeting of shareholders.

### Reserves

Changes in the Group's reserves during 2006 are set out in the Consolidated Statement of Changes in Equity of the Financial Statements.

### Distributable Reserve

Details of the distributable reserve of the Bank are set out in note 31 to the Financial Statements.

### Financial Summary

The summary of published results, assets and liabilities of the Group for the four years ended 31 December 2006 is set out under the section headed "Financial Highlights" of this Annual Report.

### Donations

During the reporting period, ICBC made donations totalling RMB12.62 million.

### Property and Equipment

Changes in properties and equipment of the Group for the year ended 31 December 2006 are set out in note 23 to the Financial Statements: Property and Equipment in this Annual Report.

### Subsidiaries

As of 31 December 2006, particulars of ICBC's principal subsidiaries are set out in note 21 to the Financial Statements: Investments in Subsidiaries in this Annual Report.

## Public Float

Changes in the issued share capital of ICBC in this financial year are set out in note 30 to the Financial Statements: Share Capital in this Annual Report.

ICBC launched its global initial public offering in 2006 with its shares listed on the Shanghai Stock Exchange and SEHK on 27 October 2006.

As at the bulk printing date of this Annual Report, the Board of Directors of ICBC believes that the Bank has maintained sufficient public float, based on the publicly available information.

## Purchase, Sale or Redemption of Shares

During the reporting period, neither ICBC nor any of its subsidiaries purchased, sold or redeemed any listed shares of ICBC.

## Pre-emptive Rights

ICBC's Articles of Association does not have any mandatory provision regarding pre-emptive rights. Pursuant to the Bank's Articles of Association, ICBC can increase its registered capital by issuing shares through public or non-public offering, issuing bonus shares to the existing shareholders, converting capital reserve to share capital or using other methods as stipulated by laws and administrative regulations or approved by relevant departments.

## Major Customers

Up to the end of 2006, ICBC's aggregate interest income and other operating income with its top five customers did not exceed 30% of ICBC's interest income and other operating income in 2006.

## Use of Proceeds from the IPO

On 27 October 2006, ICBC's shares were listed on Shanghai Stock Exchange and SEHK, issuing 14.95 billion A shares at RMB3.12 per share for a total of about RMB46.64 billion and 40.7 billion H shares (including 8.14 billion state-owned shares sold on behalf of MOF and Huijin) at HKD3.07 per share for a total of about RMB126.58 billion (including the net proceeds of RMB24.67 billion collected on behalf of MOF and Huijin from sale of state-owned shares). The raised funds will be used for the purposes disclosed in the prospectus of ICBC, namely, strengthening the capital base of ICBC so as to support the ongoing growth of the Bank's business.

Goldman Sachs, Allianz, American Express and the SSF, have subscribed for new shares in 2006. Details are set out in "Details of Changes in Share Capital and Shareholding of Substantial Shareholders-Details of Share Issuance and Initial Public Offering" in the Annual Report.

## Material Investment of Funds not Raised from the IPO

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

## Details of Issuance of Shares

Details of the issuance of shares by ICBC during the reporting period are set out in “Overview of IPO” and “Details of Changes in Share Capital and Particulars about Shareholding of Substantial Shareholders-Details of Share Issuance and Initial Public Offering” in the Annual Report.

## Directors’ and Supervisors’ Rights to Acquire Shares or Debentures

As at 31 December 2006, none of the Bank’s directors, supervisors or their respective spouses or minor children had any right to acquire benefits by means of the acquisition of shares in or debentures of the Bank or its subsidiaries; nor was the Bank or any of its subsidiaries a party to any arrangement to enable the directors or supervisors to acquire such rights in the Bank or any other body corporate.

## Interests in Shares, Underlying Shares, and Debentures Held by Substantial Shareholders and Other Persons

### Director’s Interests

As of 31 December 2006, none of the directors or supervisors of ICBC had any interests or short positions in the shares, underlying shares or debentures of ICBC or any of its associated corporations (as defined in Part XV of the Securities and Futures Ordinance) which have to be notified to ICBC and SEHK under Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (including interests or short positions therein that they shall be deemed to have pursuant to such provisions of the Securities and Futures Ordinance), or any interests or short positions which have to be recorded in the register under Section 352 of the Securities and Futures Ordinance, or any interests or short positions which have to be notified to ICBC and SEHK pursuant to Mode Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules.

### Substantial shareholders and persons having interests or short positions that are disclosable pursuant to Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance

As of 31 December 2006, ICBC had been informed by the following persons that they had interests or short positions in the shares or underlying shares of ICBC as recorded in the register required to be kept pursuant to Section 336 of the Securities and Futures Ordinance:

#### HOLDERS OF A-SHARES

Name of Substantial Shareholders	Capacity	Number of A Shares Held	Nature of Interest	Approximate Percentage of Issued A Shares (%)	Approximate Percentage of Total Issued Shares (%)
MOF	Beneficial owner	118,006,174,032	Long position	47.02	35.33
Huijin	Beneficial owner	118,006,174,032	Long position	47.02	35.33

#### HOLDERS OF H-SHARES

Name of Substantial Shareholders	Capacity	Number of H Shares Held	Nature of Interest	Approximate Percentage of Issued H Shares (%)	Approximate Percentage of Total Issued Shares (%)
SSF <sup>(1)</sup>	Beneficial owner	17,503,114,559	Long position	21.07	5.24
Goldman Sachs <sup>(2)</sup>	Beneficial owner	16,476,014,155	Long position		
	Interest of controlled corporations	369,101,477	Long position		
	Total	16,845,115,632		20.28	5.04
Allianz	Interest of controlled corporations	7,336,585,122	Long position	8.83	2.20
	Interest of controlled corporations	696,401,107	Short position	0.84	0.21

Notes: (1) According to the register of shareholders as of 31 December 2006; SSF held 14,102,149,559 shares in ICBC.

(2) According to the register of shareholders as of 31 December 2006; Goldman Sachs held 16,476,014,155 shares in ICBC.

## Connected Transactions

### Continuing Connected Transactions Defined under the Hong Kong Listing Rules

#### • Continuing Connected Transactions with the BEA Group

The Bank of East Asia, Limited (“BEA” and, together with its associates, the “BEA Group”) holds a 25% equity interest in ICBC’s non-wholly owned subsidiary, ICEA Finance Holdings Limited. According to the Hong Kong Listing Rules, BEA is a substantial shareholder of a subsidiary of ICBC. Therefore, BEA and its associates are connected persons of ICBC.

During the reporting period, ICBC engaged in fixed-income securities transactions, foreign exchange transactions, derivatives transactions, money market instruments transactions and forfeiting transactions with the BEA Group on normal commercial terms. Such transactions constitute connected transactions of ICBC.

In order to document the foregoing continuing connected transactions, ICBC and BEA Group entered into an inter-bank transactions master agreement (the “Inter-bank Transactions Master Agreement”) on 26 September 2006, which came into effect when ICBC was listed. Pursuant to the agreement, ICBC and BEA Group agreed that the above-mentioned transactions shall be conducted in accordance with applicable normal inter-bank market practices and on normal commercial terms. Such transactions are conducted in the usual course of ICBC’s business. The Inter-bank Transactions Master Agreement is valid for a period of three years starting from the date of signing and, with the consent of both parties, may be extended for another three years upon expiration.

At the time of initial public offering, ICBC applied to SEHK for a waiver under 14A.42 (3) of the Hong Kong Listing Rules:

1. from strict compliance with the announcement (but not reporting) and independent shareholders’ approval requirements (if applicable) under the Hong Kong Listing Rules for non-exempt connected transactions, and SEHK has granted such waiver; and
2. from strict compliance with the requirement to set an annual limit for non-exempt connected transactions, and SEHK has granted such waiver.

During the reporting period, neither the total amount of payments made by ICBC to the BEA Group nor that of payments made by the BEA Group to ICBC under the Inter-bank Transactions Master Agreement exceeded any of the percentage ratios (other than the profit ratio which is not applicable) under Rule 14.07 of the Hong Kong Listing Rules by 0.1%. Pursuant to Rule 14A.33 (3) of the Hong Kong Listing Rules, the foregoing connected transactions are exempted from the reporting, announcement and independent shareholders’ approval requirements under the Hong Kong Listing Rules.

**• Non-exempt Continuing Connected Transactions with Credit Suisse Group**

Credit Suisse (“Credit Suisse” and together with its associates, the “Credit Suisse Group”) holds a 25% equity interest in our non-wholly owned subsidiary, ICBC Credit Suisse Asset Management Co., Ltd. (“ICBC Credit Suisse”). In accordance with the Hong Kong Listing Rules, Credit Suisse is a substantial shareholder of a subsidiary of ICBC. Therefore, Credit Suisse and its associates are connected persons of ICBC.

During the reporting period, ICBC engaged in fixed-income securities transactions, foreign exchange transactions, money market instruments transactions, equity shares and equity-linked securities transactions, listed and over-the-counter derivatives transactions, custodian services, and investment banking services with Credit Suisse Group on normal commercial terms. Such transactions constitute connected transactions of ICBC.

In order to document the foregoing continuing connected transactions, ICBC and Credit Suisse entered into a master services agreement (the “Credit Suisse Master Services Agreement”) on 26 September 2006, which came into effect when ICBC was listed. Pursuant to the agreement, ICBC and Credit Suisse Group agreed to conduct the above-mentioned transactions according to applicable normal market practices and on normal commercial terms. Such transactions are conducted in the usual course of ICBC’s business. The Credit Suisse Master Services Agreement is valid for a period of three years starting from the date of signing and, with the consent of both parties, may be extended for another three years upon expiration.

At the time of initial public offering, ICBC applied to SEHK for a waiver under Rule 14A.42 (3) of Hong Kong Listing Rules:

1. from strict compliance with the announcement (but not reporting) and independent shareholders’ approval requirements (if applicable) under the Hong Kong Listing Rules for non-exempt connected transactions, and SEHK has granted such waiver; and
2. from strict compliance with the requirement to set an annual limit for non-exempt connected transactions, and SEHK has granted such waiver.

Transactions between ICBC and Credit Suisse Group pursuant to the Credit Suisse Master Service Agreement amounted to RMB20,051 million within the reporting period.

### **REVIEW AND CONFIRMATION ON CONTINUING CONNECTED TRANSACTIONS BY INDEPENDENT NON-EXECUTIVE DIRECTORS OF ICBC**

Independent non-executive directors of ICBC reviewed the continuing connected transactions which ICBC conducted with the BEA Group and the Credit Suisse Group within the reporting period, and confirmed that:

1. such transactions were the ordinary business of ICBC;
2. such transactions were conducted on normal commercial terms; and
3. such transactions were carried out in accordance with the terms of relevant agreements, and such terms were fair and reasonable and in the interest of ICBC's shareholders as a whole.

### **CONFIRMATION BY AUDITORS ON CONTINUING CONNECTED TRANSACTIONS**

ICBC's auditors reviewed the foregoing continuing connected transactions and confirmed that:

1. such transactions were approved by the Board of Directors of ICBC;
2. such transactions were conducted in accordance with the pricing policies of ICBC; and
3. such transactions were entered into in accordance with the relevant agreements governing these transactions.

### **Connected Transactions as Defined by Domestic Laws and Regulations**

#### **• Connected Transactions with MOF and Huijin**

In the opinion of ICBC, such transactions were carried out in the usual course of ICBC's business and on normal commercial terms and will not affect the independence of ICBC.

#### **• Connected transactions with Goldman Sachs and SSF**

As of the end of 2006, Goldman Sachs and SSF held about 5.04% and 5.24% of the Bank's shares, respectively. Pursuant to the provisions of the Listing Rules of Shanghai Stock Exchange, both of them are connected persons of ICBC. In the opinion of ICBC, all of such transactions were carried out in the usual course of ICBC's business and on normal commercial terms and will not affect the independence of ICBC.

#### **• Transactions with Other Connected Persons under the Laws and Regulations of China**

During the reporting period, no material connected transaction has been entered into between ICBC and other connected persons that is disclosable.

## Remuneration Policy for Directors, Supervisors and Senior Management Members

ICBC has adhered to the market-oriented principle and emphasised the policy of aligning performance with position value in documenting the compensation structure, basic salary and annual incentive bonus, and compensation payment of directors, supervisors and senior management members. In addition, ICBC has developed the performance restriction mechanism and performance evaluation plan, and applied balanced score card for performance evaluation from the aspects of financial indicators, operational indicators, risk management indicators, internal management and employee development. Allowance is paid to independent non-executive directors, external supervisors and representatives of the staff. In accordance with relevant laws of China, ICBC has contributed to statutory retirement programs sponsored by Chinese governmental organisations at different levels for such people as directors, supervisors and senior management members.

According to the resolutions passed at the Fourth Extraordinary Shareholders' General Meeting held in July 2006, the Bank planned to grant share appreciation rights to the eligible directors, supervisors, members of the senior management and other core employees as determined by the Board of Directors. The share appreciation rights shall be granted and exercised in accordance with the price of the Bank's H-share. As at 31 December 2006, the Bank has not granted any share appreciation rights to any director, supervisor, member of the senior management and core business personnel as determined by the Board of directors.

## Tax Concession

For details on tax concession of the Bank, please refer to "Management Discussion and Analysis-Financial Review and Prospect".

## Auditors

The 2006 Financial Statements of ICBC which were prepared in accordance with the International Financial Reporting Standards were audited by Ernst & Young, and the Financial Statements prepared in accordance with the Generally Accepted Accounting Principles of the People's Republic of China were audited by Ernst & Young Hua Ming.

## Members of Board of Directors

The directors of ICBC during the financial year were as follows:

Executive Directors: Jiang Jianqing, Yang Kaisheng, Zhang Furong, Niu Ximing

Non-executive Directors: Fu Zhongjun, Kang Xuejun, Song Zhigang, Wang Wenyan, Zhao Haiying, Zhong Jian'an, Christopher A. Cole

Independent Non-executive Directors: Leung Kam Chung, Antony, John L. Thornton, Qian Yingyi

## Relationships among Members of Board of Directors

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

By order of the Board of Directors

**Jiang Jianqing**  
Chairman

## Report of the Board of Supervisors

### Meetings of the Board of Supervisors and its Special Committee

#### Meetings of the Board of Supervisors

During the reporting period, the Board of Supervisors held 5 meetings and passed 14 resolutions including the "Final Accounts of 2005", the "2005 Annual Report and Abstract", the "2005 Work Report of Board of Supervisors", the "Report on Supervision and Inspections in the First Half of 2006". The Board of Supervisors heard the report of the Supervisory Board Office on the audit of interim financial report and profit distribution plan of 2006, the report of the Internal Audit Bureau on special audit for financial information disclosure, and the report of Ernst & Young on audits of financial reports.

#### ATTENDANCE OF SUPERVISORS IN MEETINGS:

Members of the Board of Supervisors	Actual attendance/ Number of meetings requiring attendance	Attendance rate (%)
Wang Weiqiang	5/5	100
Wang Chixi	5/5	100
Wang Daocheng	5/5	100
Miao Gengshu	5/5	100
Zhang Wei	2/2	100

#### Meetings of Supervision Committee

During the reporting period, the Supervision Committee held 3 meetings and passed 6 resolutions, including the "2006 Work Plan of the Supervision Committee", "Suggestions on Relevant Matters in connection with the 2005 Final Accounts" and "Audit Opinions on the 2005 Annual Report and Abstract of ICBC".

#### ATTENDANCE OF MEMBERS OF THE BOARD OF SUPERVISORS IN MEETINGS OF THE SUPERVISION COMMITTEE:

Members of the Board of Supervisors	Actual attendance/ Number of meetings requiring attendance	Attendance rate (%)
Wang Chixi	3/3	100
Wang Daocheng	3/3	100
Miao Gengshu	3/3	100

## Work Performed by the Board of Supervisors

During the reporting period, the Board of Supervisors earnestly fulfilled its supervisory role and carried out supervision and inspection activities in accordance with the *Company Law* and the Articles of Association of the Bank.

Apart from attending relevant meetings of the Board of Supervisors, supervisors participated in all the shareholders' general meetings held in the year, and attended all meetings of the Board of Directors and its special committees and some meetings convened by the senior management in the year as observers. The Board of Supervisors reviewed and made recommendations on the proposals submitted to the Board of Directors and special committees.

The Board of Supervisors supervised the due performance of duties by the Board of Directors, senior management and their members by attending the meetings of the Board of Directors and special committees as observers, reviewing materials relating to operational activities and conducting questionnaire survey. In September of 2006, the Board of Supervisors convened a reporting meeting with the attendance of directors and senior management, at which meeting the Board of Supervisors reported the "Report on Supervision and Inspection in the First Half of 2006", the "Report Concerning the Questionnaire Survey on the Board of Directors and Senior Management" and the "Suggestions on Further Deepening Corporate Governance and Strengthening Operational Management".

The Board of Supervisors conducted supervision and inspection on the financial activities, credit business, risk management and internal control of the Bank. The Board of Supervisors carried out onsite inspection on 6 tier-1 branches and 9 institutions directly controlled by the Head Office in respect of financial income and expenditure, loans to legal person customers and personal housing loans, and carried out special investigation on relevant departments of the Head Office concerning the preparation of financial statements, data input, parameter management and information system management and control. To address the problems found in the inspection, the Board of Supervisors issued rectification notice to relevant branches, and informed the senior management of the risks that may arise from the important issues.

Supervisors attended workshops at 10 domestic branches, 4 regional internal audit offices and 2 overseas branches to gain an understanding of the operational management of branches and problems therein, and made suggestions on enhancing risk management, internal control and prudent operation.

The Board of Supervisors participated in the preparation for the initial public offering. Supervisors attended major meetings in the course of listing, listened to reports on the listing progress, participated in the revision to the listing materials, reviewed the prospectus and signed the documents required for the listing.

During the reporting period, the Board of Supervisors kept strengthening self-building by improving the organisational structure and various regulations. The Board of Supervisors established the Supervisory Board Office as its daily work body, added 1 employee supervisor, and revised the "Procedural Rules of the Board of Supervisors" and the "Terms of References of the Supervision Committee of the Board of Supervisors".

## Independent Opinions of Board of Supervisors on Relevant Issues

### Legal Operation

During the reporting period, the Bank continued to operate in strict compliance with laws and regulations and strengthened risk management and internal control. Its procedures in relation to decision-making complied with the laws, regulations and the Articles of Association of the Bank. Directors and senior management members earnestly performed their duties. The Board of Supervisors did not find any violation of laws and regulations of the state or the Articles of Association of the Bank or act that contravene the interest of the Bank and its shareholders during the reporting period.

### Authenticity of Financial Statements

The annual financial statements of the Bank reflected the financial position and operating results truthfully and fairly.

### Purchase and Sale of Assets

During the reporting period, the Board of Supervisors did not find any act that contravened the shareholders' interests or caused the loss of the Bank's assets in the process of the Bank's purchase and sale of assets.

### Use of Proceeds from the IPO

During the reporting period, the Bank launched the IPO of its A-shares and H-shares and raised net funds of RMB144,585 million after deduction of relevant expenses. The use of above proceeds was consistent with the purpose stated in the prospectus.

### Connected Transactions

During the reporting period, the connected transactions of the Bank were entered into on normal commercial terms. The Board of Supervisors did not find any act that contravened the interest of shareholders or the Bank.

### Implementation of Resolutions Passed at Shareholders' General Meeting

The Board of Supervisors had no objection to the reports or proposals submitted by the Board of Directors to the Shareholders' General Meeting for consideration. The Board of Directors earnestly implemented the resolutions passed at the Shareholders' General Meeting.

## Management Discussion and Analysis

### **Economic, Financial and Regulatory Environments**

China strengthened and improved its macroeconomic measures in 2006, and its economy continued to maintain steady and rapid growth. In 2006, China's GDP reached RMB20.9 trillion, an increase of 10.7%. The foreign exchange reserve increased by USD247.5 billion to USD1,066.3 billion. The balance of deposits of all financial institutions reached RMB34.8 trillion, an increase of 16.0%. All the loans outstanding reached RMB23.9 trillion, an increase of 14.7%.

The PBOC continued to implement prudent monetary policy and tightened banking liquidity by taking various measures, including intensifying open market operations and raising reserve-deposit ratio three times for financial institutions. By raising deposit and loan rates of financial institutions twice, it successfully allowed investment and monetary credit to grow reasonably. The reform of the RMB exchange rate mechanism was further deepened. At the end of 2006, the exchange rate of RMB against the US dollar (middle rate) appreciated by 3.35%, and the flexibility of the RMB exchange rate increased.

Financial market operated smoothly: the liquidity of money market was adequate, and market yield curve showed a streamlined trend. China has basically completed the reform of non-tradable shares, and resumed the initial public offering of equity securities. The stock index soared remarkably, with a sharp increase in market transaction volume.

## Financial Statement Analysis and Prospects

### Income Statement Analysis

In 2006, profit after tax reached RMB49,880 million, representing an increase of RMB11,861 million or 31.2% over the previous year. It was mainly due to a RMB10,018 million or 5.8% increase in operating income, of which net interest income increased by 6.2% and non-interest income rose by 2.8%. Income tax expense decreased by 11.3%. Preferential tax related to restructuring and listing reduced ICBC's effective tax rate.

#### CHANGES OF KEY INCOME STATEMENT ITEMS

in RMB millions, except percentages

Item	2006	2005	Increase/ decrease	Growth rate (%)
Net interest income	163,118	153,603	9,515	6.2
Non-interest income	18,520	18,017	503	2.8
Operating income	181,638	171,620	10,018	5.8
Less: operating expenses	77,397	81,585	(4,188)	-5.1
Less: provisions for impairment losses	32,189	27,014	5,175	19.2
Operating profit	72,052	63,021	9,031	14.3
Share of profits and losses of associates	13	5	8	160.0
Profit before tax	72,065	63,026	9,039	14.3
Less: income tax expense	22,185	25,007	(2,822)	-11.3
Profit after tax	49,880	38,019	11,861	31.2
Attributable to: equity holders of the Bank	49,263	37,555	11,708	31.2
Minority interests	617	464	153	33.0

#### Net Interest Income

Net interest income is the biggest component of ICBC's operating income. Net interest income reached RMB163,118 million in 2006, representing an increase of 6.2% and accounting for 89.8% of the operating income. Interest income was RMB272,941 million, of which the interest income from loans, investment securities and other interest income accounted for 68.7%, 24.5% and 6.8%, respectively.

The table below sets out the average balance of assets and liabilities, interest income and expenses and average yield and cost rates respectively<sup>(1)</sup>.

in RMB millions, except percentages

Item	2006			2005		
	Average balance	Interest income/expense	Average yield/cost (%)	Average balance	Interest income/expense	Average yield/cost (%)
<b>Assets</b>						
Customers loans	3,464,384	187,623	5.42	3,429,852	175,285	5.11
Investment securities:	2,568,008	66,883	2.60	1,751,037	51,480	2.94
Investment securities not relating to restructuring	1,492,106	42,328	2.84	1,005,027	30,650	3.05
Investment securities relating to restructuring <sup>(2)</sup>	1,075,902	24,555	2.28	746,010	20,830	2.79
Due from Central Bank	563,909	10,080	1.79	534,063	8,967	1.68
Placements with banks and other financial institutions <sup>(3)</sup>	241,787	8,355	3.46	177,813	4,470	2.51
<b>Total interest-generating assets</b>	<b>6,838,088</b>	<b>272,941</b>	<b>3.99</b>	<b>5,892,765</b>	<b>240,202</b>	<b>4.08</b>
Provision for impairment loss	(94,023)			(357,696)		
Non-interest-generating assets	250,795			236,478		
<b>Total assets</b>	<b>6,994,860</b>			<b>5,771,547</b>		
<b>Liabilities</b>						
Deposits from customers <sup>(4)</sup>	6,049,024	100,666	1.66	5,465,941	80,753	1.48
Due to banks and other financial institutions <sup>(3)</sup>	391,574	7,898	2.02	278,670	5,356	1.92
Debt issued	37,978	1,259	3.32	14,360	490	3.41
<b>Total interest-bearing liabilities</b>	<b>6,478,576</b>	<b>109,823</b>	<b>1.70</b>	<b>5,758,971</b>	<b>86,599</b>	<b>1.50</b>
Non-interest-bearing liabilities	171,696			142,038		
<b>Total liabilities</b>	<b>6,650,272</b>			<b>5,901,009</b>		
<b>Net interest income</b>		<b>163,118</b>			<b>153,603</b>	
<b>Net interest spread</b>			<b>2.29</b>			<b>2.58</b>
<b>Net interest margin</b>			<b>2.39</b>			<b>2.61</b>

Note: (1) The average balance of interest-generating assets and interest-bearing liabilities is the average of the unaudited daily balances. The average balance of non-interest-generating assets, non-interest-bearing liabilities and provision for impairment loss is the average of the balance at beginning and end of the year.

(2) Investment securities relating to restructuring includes Huarong bonds, special government bonds, MOF receivables and special PBOC bills.

(3) The placements with banks and other financial institutions includes the amount of reverse repurchase agreements. The amount due to banks and other financial institutions includes the amount of repurchase agreements.

(4) Including certificates of deposits.

The table below indicates changes in interest income and expense brought by changes in volume and interest rates.

in RMB millions, except percentages

Item	Comparison between 2006 and 2005			Comparison between 2005 and 2004		
	Increase/(decrease) due to		Net increase/ (decrease)	Increase/(decrease) due to		Net increase/ (decrease)
	Volume	Rate		Volume	Rate	
<b>Assets</b>						
Customer loans	1,705	10,633	12,338	(7,408)	22,525	15,117
Investment securities	21,319	(5,916)	15,403	18,641	(1,358)	17,283
Investment securities not relating to restructuring	13,789	(2,111)	11,678	8,903	712	9,615
Investment securities relating to restructuring	7,530	(3,805)	3,725	9,738	(2,070)	7,668
Due from Central Bank	526	587	1,113	1,403	(722)	681
Placements with banks and other financial institutions	2,196	1,689	3,885	982	1,250	2,232
<b>Changes in interest income</b>	<b>25,746</b>	<b>6,993</b>	<b>32,739</b>	<b>13,618</b>	<b>21,695</b>	<b>35,313</b>
<b>Liabilities</b>						
Deposits from customers	10,074	9,839	19,913	6,983	7,949	14,932
Due to banks and other financial institutions	2,263	279	2,542	166	890	1,056
Debt issued	782	(13)	769	457	(7)	450
<b>Changes in interest expense</b>	<b>13,119</b>	<b>10,105</b>	<b>23,224</b>	<b>7,606</b>	<b>8,832</b>	<b>16,438</b>
<b>Changes in net interest income</b>	<b>12,627</b>	<b>(3,112)</b>	<b>9,515</b>	<b>6,012</b>	<b>12,863</b>	<b>18,875</b>

Note: Changes in volume are measured by changes in average balances, while changes in rates are measured by changes in average rates. Changes due to the combination of volume and rate have been allocated to changes in volume.

#### • Interest Income

Interest income was RMB272,941 million, representing an increase of 13.6%; interest income from investment securities and the placements with banks and other financial institutions increased rapidly by 34.5% in aggregate, contributing to 27.6% of total interest income, as compared to 23.3% in the previous year.

### • Interest Income from Customer Loans

Interest income from customer loans constituted the biggest component of the Bank's interest income, reaching RMB187,623 million in 2006, representing an increase of RMB12,338 million or 7%. The main reason for the growth was that PBOC raised the benchmark interest rate twice in 2006, resulting in the average yield of customer loans rising from 5.11% to 5.42%. The average balance was close to that of the previous year, mainly due to the influence of restructuring-related disposal on the average balance of customer loans in 2005.

### ANALYSIS OF AVERAGE LOAN YIELD BY BUSINESS LINES

in RMB millions, except percentages

Item	2006			2005		
	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Corporate loans	2,399,392	139,312	5.81	2,505,521	133,199	5.32
Discounted bills	421,912	11,135	2.64	339,123	9,044	2.67
Personal loans	534,569	31,169	5.83	498,851	29,060	5.83
Overseas operations	108,511	6,007	5.54	86,357	3,982	4.61
<b>Total customer loans</b>	<b>3,464,384</b>	<b>187,623</b>	<b>5.42</b>	<b>3,429,852</b>	<b>175,285</b>	<b>5.11</b>

74.3% of the interest income of customer loans was the interest income from corporate loans. In 2006, interest income from corporate loans rose by 4.6% to RMB139,312 million. It was mainly because the average yield increased from 5.32% to 5.81%, while part of the increase was offset by the reduction of the average balance. The growth of average yield of corporate loans was mainly due to: (1) PBOC raised the benchmark loan rate twice in April and August 2006; (2) loans to small-sized enterprises increased, and interest rate of such loans was generally higher than that of other corporate customer loans.

Interest income from discounted bills rose by 23.1% to RMB11,135 million, mainly due to an increase in the average balance.

Interest income from personal loans increased by 7.3% to RMB31,169 million, mainly due to an increase in the average balance, especially the rapid growth of personal housing loans and personal business loans. The average yield of personal loans was similar to that of the previous year, because the competition in the personal housing loan market was intensified despite the rise of benchmark loan rate by PBOC, and the interest rate of most of the Bank's personal housing loans was set at 0.85 times of the PBOC benchmark loan rate. Moreover, the rise of the interest rate of existing loans became effective on 1 January 2007, and therefore, it did not have any effect on the yield in 2006.

Interest income from overseas operations increased by 50.9% to RMB6,007 million, and mainly came from ICBC (Asia). The growth was due to an increase in the average yield resulted from the increase of loan rate in Hong Kong.

#### • Interest Income from Investment Securities

Interest income from investment securities constituted the second largest component of the Bank's interest income, accounting for 24.5% of total interest income, representing an increase of 3.1 percentage points. The income from investment securities principally included the interest income from available-for-sale debt securities, held-to-maturity debt securities and investment securities relating to financial restructuring.

Interest income from investment securities rose by RMB15,403 million or 29.9% to RMB66,883 million in 2006, of which, interest income from investment securities not relating to restructuring increased by RMB11,678 million, mainly because the Bank increased investment in Central Bank bills and policy bank bonds, thus increasing the average balance of these investment securities. The average yield decreased, mainly because the proportion of lower-yield Central Bank bills held by the Bank increased; secondly, some government bonds with relatively high interest rates became due in the year, pulling down the average yield. Interest income from investment securities relating to restructuring increased by RMB3,725 million or 17.9%. It was mainly because the Bank obtained the investment securities relating to restructuring from MOF and special Central Bank bills in May and June 2005, increasing the average balance of restructured investment securities. The decrease of average yield was mainly due to the revision on relevant terms of special treasury bonds of RMB85 billion.

#### • Interest Income from Amounts Due from Central Bank

The interest-earning balances with the central bank principally included the mandatory reserve and excess reserve. ICBC earned an interest income of RMB10,080 million from amount due from Central Bank in 2006, representing an increase of 12.4%. It was mainly because both ICBC's customer deposits and the mandatory reserve ratio stipulated by PBOC increased, thereby the average balance of due from the Central Bank increased. Secondly, ICBC improved cash management, and reduced the proportion of excess reserve in the dues from Central Bank, thus increasing the average yield.

#### • Interest Income from Amounts Due from and Placements with Banks and Other Financial Institutions

Interest income from the amounts due from and placements with banks and other financial institutions reached RMB8,355 million in 2006, an increase of 86.9%. It was principally attributed to the growth of the average yield and, to the lesser extent, attributed to the growth of average balance. The main reason for the growth of average yield was that interest rate in the RMB inter-bank monetary market rebounded slightly with the increase of interest rate of the Central Bank bills. The growth was also attributable to the fact that a part of foreign currency fund raised through H-share offering was invested in the inter-bank money market, and lending in the market was based on the LIBOR, which was increased in 2006 as compared to 2005.

#### • Interest Expense

Interest expense reached RMB109,823 million, representing an increase of 26.8%. It was principally due to an increase in the average balance of interest-bearing liabilities, and, to a lesser extent, an upward adjustment in the benchmark deposit rate by PBOC and a rebound of interest rate in the inter-bank money market, causing the increase in average cost of interest-bearing liabilities from 1.50% in 2005 to 1.70% in 2006.

### • Interest Expense on Customer Deposits

Customer deposits have been a major source of the Bank's funding. In 2006, interest expense on customer deposits reached RMB100,666 million, representing an increase of RMB19,913 million or 24.7%, accounting for 91.7% of total interest expense. The growth was mainly due to an increase in the average balance of customer deposits and an increase in the average cost from 1.48% in 2005 to 1.66% in 2006.

### ANALYSIS OF AVERAGE DEPOSIT COST BY PRODUCTS

in RMB millions, except percentages

Item	2006			2005		
	Average balance	Interest expense	Average cost (%)	Average balance	Interest expense	Average cost (%)
<b>Corporate deposits</b>						
Time deposits	786,514	19,522	2.48	639,564	13,542	2.12
Demand deposits <sup>(1)</sup>	1,927,699	16,385	0.85	1,780,003	14,988	0.84
<b>Subtotal</b>	<b>2,714,213</b>	<b>35,907</b>	<b>1.32</b>	<b>2,419,567</b>	<b>28,530</b>	<b>1.18</b>
<b>Personal deposits</b>						
Time deposits	2,205,072	53,497	2.43	2,066,699	43,228	2.09
Demand deposits	1,035,589	7,405	0.72	919,829	6,666	0.72
<b>Subtotal</b>	<b>3,240,661</b>	<b>60,902</b>	<b>1.88</b>	<b>2,986,528</b>	<b>49,894</b>	<b>1.67</b>
<b>Overseas operations<sup>(2)</sup></b>	<b>94,150</b>	<b>3,857</b>	<b>4.10</b>	<b>59,846</b>	<b>2,329</b>	<b>3.89</b>
<b>Total customer deposits</b>	<b>6,049,024</b>	<b>100,666</b>	<b>1.66</b>	<b>5,465,941</b>	<b>80,753</b>	<b>1.48</b>

Notes: (1) Include outward remittance and remittance payables.

(2) Include certificates of deposits.

### • Interest Expense on Amounts Due to and Placements from Banks and Other Financial Institutions

Interest expense on amounts due to and placements from banks and other financial institutions grew by 47.5% to RMB7,898 million. The growth was mainly attributed to the resumption of equity securities offering in domestic stock market in 2006 and a surge in RMB deposits from securities companies with the Bank, which led to a significant increase in the average balance of such deposits.

### • Interest Expense on Debt Issued

Interest expense on debt issued was RMB1,259 million, an increase of 156.9%. The growth was mainly due to the issue of subordinated bonds of RMB35 billion by the Bank in the second half of 2005, increasing the average balance of the bonds.

### • Non-interest Income

Non-interest income reached RMB18,520 million, an increase of 2.8%, accounting for 10.2% of the operating income, representing a decrease of 0.3 percentage points over the previous year.

**COMPOSITION OF NON-INTEREST INCOME**

in RMB millions, except percentages

Item	2006	2005	Increase/ decrease	Growth rate (%)
Fee and commission income	18,529	12,376	6,153	49.7
Less: fee and commission expense	2,185	1,830	355	19.4
Net fee and commission income	16,344	10,546	5,798	55.0
Other operating income	2,176	7,471	(5,295)	-70.9
<b>Total</b>	<b>18,520</b>	<b>18,017</b>	<b>503</b>	<b>2.8</b>

In 2006, net fee and commission income reached RMB16,344 million, representing an increase of 55.0%, and accounting for 88.3% of non-interest income. The growth indicated the achievement that ICBC acquired by taking the expansion of intermediary business as an important part of its business strategy. RMB settlement and clearing, wealth management, bank card and investment banking were the main sources for ICBC's fee and commission income.

**COMPOSITION OF NET FEE AND COMMISSION INCOME**

in RMB millions, except percentages

Item	2006	2005	Increase/ decrease	Growth rate (%)
RMB settlement and clearing	4,656	2,824	1,832	64.9
Wealth management	3,280	1,929	1,351	70.0
Bank card	3,228	2,346	882	37.6
Investment banking	3,099	2,018	1,081	53.6
Agency business	1,254	1,081	173	16.0
Foreign exchange intermediary business	1,006	879	127	14.4
E-banking services	693	421	272	64.6
Guarantees and commitments	433	261	172	65.9
Custody	341	263	78	29.7
Others	539	354	185	52.3
<b>Gross fee and commission income</b>	<b>18,529</b>	<b>12,376</b>	<b>6,153</b>	<b>49.7</b>
<b>Less: fee and commission expense</b>	<b>2,185</b>	<b>1,830</b>	<b>355</b>	<b>19.4</b>
<b>Net fee and commission income</b>	<b>16,344</b>	<b>10,546</b>	<b>5,798</b>	<b>55.0</b>

RMB settlement and clearing income reached RMB4,656 million, representing an increase of RMB1,832 million or 64.9%. The growth was mainly due to the introduction of service fees on personal deposit accounts with low balances starting in the second quarter of 2006, with service fees of RMB1,107 million in the year.

Wealth management income increased by RMB1,351 million or 70.0% to RMB3,280 million. The growth was principally because ICBC made great efforts to develop wealth management business and achieved rapid growth in sales volume of such products. Due to the good performance of the PRC's securities market, the types and duration of open-end funds both increased sharply. The development of bancassurance linked the distribution channels of banks and those of insurance companies, increasing the transaction volume of life insurance.

Income from e-banking services increased by RMB272 million or 64.6% to RMB693 million, mainly due to the growth of e-banking settlement and agency business transactions. Bank card business income increased by 37.6% to RMB3,228 million; investment banking income rose by 53.6% to RMB3,099 million.

### OTHER OPERATING INCOME, NET

in RMB millions, except percentages

Item	2006	2005	Increase/ decrease	Growth rate (%)
Gain/(loss) from foreign exchange and exchange products, net	(1,329)	2,255	(3,584)	-158.9
Gain from other dealing activities, net	676	1,314	(638)	-48.6
Gain on disposal of property, equipment and other assets, net	328	626	(298)	-47.6
Sundry bank charges/income <sup>(1)</sup>	917	1,309	(392)	-29.9
Others <sup>(2)</sup>	1,584	1,967	(383)	-19.5
<b>Total</b>	<b>2,176</b>	<b>7,471</b>	<b>(5,295)</b>	<b>-70.9</b>

Notes: (1) Consists primarily of income arising from dormant deposits, settlement of other payables and recoveries of litigation expenses.

(2) Consists of dividend income from unlisted investments and recoveries of other assets written-off in prior years and others.

Other net operating income decreased by RMB5,295 million or 70.9% to RMB2,176 million. It was mainly due to RMB appreciation, which resulted in loss of foreign currency translation as well as decline in net gain from foreign exchange and exchange products. In addition, changes of fair value of currency option purchased from Huijin decreased in 2006.

In 2006, the return of foreign currency fund operation of the Bank was higher than that of RMB fund operation, while such excess of gain on investment offset the currency translation loss.

## Operating Expenses

### OPERATING EXPENSES

in RMB millions, except percentages

Item	2006	2005	Increase/ decrease	Growth rate (%)
Staff expenses	34,760	27,990	6,770	24.2
Supplementary retirement benefits	389	4,770	(4,381)	-91.8
Property and equipment expenses	14,494	14,409	85	0.6
Other administrative expenses	11,271	10,484	787	7.5
Business tax and surcharges	11,419	9,419	2,000	21.2
Expenses in relation to special government bonds	0	5,610	(5,610)	-100.0
Others	5,064	8,903	(3,839)	-43.1
<b>Total</b>	<b>77,397</b>	<b>81,585</b>	<b>(4,188)</b>	<b>-5.1</b>
<b>Cost-to-income ratio (%)<sup>(1)</sup></b>	<b>36.3</b>	<b>40.1</b>		

Note: (1) Cost-to-income ratio equals to the operating expenses (excluding business tax and surcharges) divided by operating income. In calculation of cost-to-income ratio of 2005, the interest income from and expense on special government bonds for the 11-month period ended 30 November 2005 were deducted from the operating income and operating expenses respectively.

Operating expenses decreased by RMB4,188 million or 5.1% to RMB77,397 million, mainly due to a decline in the expenses in relation to special government bonds and supplementary retirement benefits.

Supplementary retirement benefits refer to the supplementary pension and medical benefits for domestic employees who retired before 30 June 2005. During the financial restructuring in 2005, ICBC had received approval from MOF to establish a specific fund for retirement benefits. ICBC's liabilities for the supplementary retirement benefits at 31 December 2005 were calculated by Towers Perrin, an independent actuary, using expected progressive benefit unit method. Actuarial gain or loss is recognised in the income statement in the period which it incurred. ICBC settled the supplementary retirement benefits by injecting assets in equal amount into the fund in 2006, and thereafter it would have no further obligation to pay for the benefits. Please refer to note 29 to the Financial Statements: Other Liabilities. Please refer to sub-paragraph (a)(ii) of note 20 to the Financial Statements: Investment Securities for information on special government bonds.

Other administrative expenses rose by a low level of 7.5% to RMB11,271 million, mainly because ICBC strengthened cost management and control, and further regulated administrative and business expenses by means of centralised procurement and accounting.

### Provision for Impairment Losses

ICBC made provision for impairment losses of RMB32,189 million in 2006, representing an increase of RMB5,175 million or 19.2% when comparing to that of last year, of which, provision for loan loss reached RMB30,014 million, representing an increase of RMB3,425 million or 12.9% when comparing to that of last year. For details of changes in provision for loan losses, please refer to "Review of Balance Sheet Items — Provision for Loan Losses".

### Income Tax Expense

Income tax expense decreased by RMB2,822 million or 11.3% from last year to RMB22,185 million. Effective tax rate was 30.78%, representing a decrease of 8.90 percentage points from the previous year.

Pursuant to the Circular of State Administration of Taxation on the Issues of Business Income Tax Relating to Asset Evaluation Appreciation in Restructuring of ICBC (C.SH. [2006] No. 81) issued by MOF, in 2006, ICBC was exempted from business income tax relating to the asset revaluation appreciation during restructuring. Meanwhile, it was allowed to deduct the depreciation or amortisation made according to the appraised value before business income tax. In accordance with the Notice of Ministry of Finance and State Administration of Taxation on Pre-tax Deduction of Taxable Salary of ICBC (C.SH. [2007] No. 44) issued by MOF and State Administration of Taxation ("SAT"), the Bank changed the calculation method on pre-tax deduction of taxable salary from standard deduction to approved deduction of taxable salary in 2006. The two preferential tax policies above reduced income tax expense of the Bank.

### Segment Information

The Bank's principal business segments are corporate banking, personal banking and treasury operations. The Bank uses the Performance Value Management System (PVMS) to evaluate the performance of each business segment. The following table illustrates the operating income from each main business segment. Please see "Management Discussion and Analysis — Business Overview" for a description of the products and business in these segments.

#### SUMMARY BUSINESS SEGMENTS INFORMATION

in RMB millions, except percentages

Item	2006		2005	
	Amount	Percentage (%)	Amount	Percentage (%)
Corporate banking	92,458	50.9	87,482	51.0
Personal banking	62,257	34.3	53,681	31.3
Treasury operations	25,374	14.0	28,296	16.5
Others	1,549	0.8	2,161	1.2
<b>Total operating income</b>	<b>181,638</b>	<b>100.0</b>	<b>171,620</b>	<b>100.0</b>

The following table illustrates the operating income of each geographic segment. For details please see note 39 to Financial Statements: Segment Information.

## SUMMARY GEOGRAPHICAL SEGMENT INFORMATION

in RMB millions, except percentages

Item	2006		2005	
	Amount	Percentage (%)	Amount	Percentage (%)
Head Office	12,626	7.0	18,828	11.0
Yangtze River Delta	41,988	23.1	38,290	22.3
Pearl River Delta	24,823	13.7	22,560	13.1
Bohai Rim	37,013	20.4	34,381	20.0
Central China	24,011	13.2	21,023	12.3
Northeastern China	10,054	5.5	8,595	5.0
Western China	26,899	14.8	24,739	14.4
Overseas and others	4,224	2.3	3,204	1.9
<b>Total operating income</b>	<b>181,638</b>	<b>100.0</b>	<b>171,620</b>	<b>100.0</b>

## Review of Balance Sheet Items

### Asset Composition and Change

Total assets amounted to RMB7,508,751 million at the end of 2006, representing an increase of RMB1,052,620 million or 16.3% over the previous year. Among which, customer loans and advances (collectively referred to as “loans”) increased by RMB341,618 million or 10.4%; investment securities rose by RMB555,109 million or 24.1%. In terms of structure, net loans accounted for 47.1% of total assets, dropped by 2.6 percentage points, investment securities accounted for 38.1%, increased by 2.4 percentage points, and other assets accounted for 14.8%.

in RMB millions, except percentages

Item	At 31 December 2006		At 31 December 2005	
	Amount	Percentage (%)	Amount	Percentage (%)
Total customer loans and advances	3,631,171	—	3,289,553	—
Less: provisions for impairment of loans	(97,193)	—	(83,692)	—
Customer loans and advances, net	3,533,978	47.1	3,205,861	49.7
Investment securities, net	2,860,798	38.1	2,305,689	35.7
Of which: receivables	1,106,163	14.7	1,074,461	16.6
Cash and balances with the central bank	703,657	9.4	553,873	8.6
Due from and placements with banks and other financial institutions, net	206,506	2.7	132,162	2.0
Reverse repurchase agreements	39,218	0.5	89,235	1.4
Others	164,594	2.2	169,311	2.6
<b>Total assets</b>	<b>7,508,751</b>	<b>100.0</b>	<b>6,456,131</b>	<b>100.0</b>

## Loans

Total loan balance grew steadily in 2006, reaching RMB3,631,171 million at the end of 2006 and representing an increase of RMB341,618 million or 10.4% over last year.

### • Distribution of Loans by Product Type

As of the end of 2006, domestic corporate loans of the Bank were RMB2,530,732 million, accounting for 69.7%; personal loans were RMB576,109 million, accounting for 15.9%; discounted bills were RMB412,313 million, accounting for 11.3%; and overseas loans were RMB112,017 million, accounting for 3.1%.

### DISTRIBUTION OF CUSTOMER LOANS BY BUSINESS LINE

in RMB millions, except percentages

Item	At 31 December 2006		At 31 December 2005	
	Amount	Percentage (%)	Amount	Percentage (%)
Corporate loans	2,530,732	69.7	2,277,396	69.2
Discounted bills	412,313	11.3	392,717	11.9
Personal loans	576,109	15.9	515,042	15.7
Overseas operations	112,017	3.1	104,398	3.2
<b>Total</b>	<b>3,631,171</b>	<b>100.0</b>	<b>3,289,553</b>	<b>100.0</b>

Domestic corporate loans increased by RMB253,336 million or 11.1%, of which, long and medium-term corporate loans grew by RMB200,470 million or 15.0%. This is mainly due to the increase of long and medium-term project loans, property development loans and syndicated loans.

**DISTRIBUTION OF CORPORATE LOANS BY PRODUCT TYPE**

in RMB millions, except percentages

Item	At 31 December 2006		At 31 December 2005	
	Amount	Percentage (%)	Amount	Percentage (%)
Short-term corporate loans	991,775	39.2	938,909	41.2
Long and medium-term corporate loans	1,538,957	60.8	1,338,487	58.8
Of which: Medium- and long-term property development loans	220,172	8.7	174,267	7.7
Syndicated loans	97,282	3.8	72,283	3.2
<b>Subtotal</b>	<b>2,530,732</b>	<b>100.0</b>	<b>2,277,396</b>	<b>100.0</b>

Balance of discounted bills increased by RMB19,596 million or 5.0%. The growth slowed down mainly because ICBC adjusted the structure of loan products including discounted bills, so as to balance the credit exposure to the various loan products and attain the profit target.

The balance of personal loans rose by RMB61,067 million or 11.9%, which is mainly due to the growth of personal housing loans and personal business loans, of which, personal housing loans reached RMB410,227 million, an increase of 8.6%, while personal business loans stood at RMB82,306 million, an increase of 36.4%. These two types of loans above represented 89.2% of the newly granted personal loans. Bank card overdraft grew by RMB1,735 million or 50.6% to RMB5,166 million, mainly due to an increase in new credit cards.

**DISTRIBUTION OF PERSONAL LOANS BY PRODUCT LINE**

in RMB millions, except percentages

Item	At 31 December 2006		At 31 December 2005	
	Amount	Percentage (%)	Amount	Percentage (%)
Personal housing loans	410,227	71.2	377,704	73.3
Personal consumption loans	78,410	13.6	73,565	14.3
Personal business loans	82,306	14.3	60,342	11.7
Bank card overdrafts	5,166	0.9	3,431	0.7
<b>Total</b>	<b>576,109</b>	<b>100.0</b>	<b>515,042</b>	<b>100.0</b>

Note: In light of the supplementary requirements of the financial statistics system of the PBOC, ICBC has changed personal commercial housing loans previously classified in personal real estate mortgage loans to personal business loans, and changed personal house refurbishing loans and personal home improvement loans to personal consumption loans since the second half of 2006. Corresponding adjustment was made to the loan classification at the end of 2005.

### • Distribution of Loans by Geographic Region

In 2006, the Bank continued to improve regional structure of credit assets, and achieved balanced and harmonious development in regions.

#### DISTRIBUTION OF LOANS BY GEOGRAPHIC REGION

in RMB millions, except percentages

Item	At 31 December 2006		At 31 December 2005	
	Amount	Percentage (%)	Amount	Percentage (%)
Head Office	259,289	7.1	263,117	8.0
Yangtze River Delta	907,125	25.0	791,990	24.1
Pearl River Delta	513,514	14.1	453,773	13.8
Bohai Rim	640,213	17.6	574,513	17.4
Central China	467,142	12.9	424,628	12.9
Northeastern China	198,427	5.5	193,000	5.9
Western China	533,444	14.7	484,134	14.7
Overseas operations	112,017	3.1	104,398	3.2
<b>Total</b>	<b>3,631,171</b>	<b>100.0</b>	<b>3,289,553</b>	<b>100.0</b>

### • Domestic Corporate Loans by Industry

In 2006, ICBC's loans to transportation and logistics, power generation and supplies and real estate development industries grew fast, increasing by RMB157,677 million, RMB61,859 million and RMB36,040 million (or 42.9%, 22.0% and 18.6%) respectively over the previous year. Loans to retail, wholesale and catering industry decreased by RMB10,764 million. Loans to manufacturing industry increased by RMB10,213 million, mainly attributable to the increase in loans made to textile and apparels, metal processing and chemical sectors. In terms of the balance structure, at the end of 2006, the loans are mainly concentrated on industries of manufacturing, transportation and logistics, power generation and supplies, and retail, wholesale and catering. Loan balance for these four industries accounted for 71.0% of all domestic corporate loans of ICBC.

**DISTRIBUTION OF BALANCE OF DOMESTIC CORPORATE LOANS BY INDUSTRY**

in RMB millions, except percentages

Item	At 31 December 2006		At 31 December 2005	
	Amount	Percentage (%)	Amount	Percentage (%)
Manufacturing	672,589	26.6	662,376	29.1
Chemicals	112,827	4.5	106,103	4.7
Machinery	81,798	3.2	82,034	3.6
Iron and steel	70,339	2.8	68,558	3.0
Textiles and apparels	68,363	2.7	59,245	2.6
Metal processing	62,583	2.5	53,867	2.4
Petroleum processing	44,744	1.8	44,621	2.0
Automobile	39,202	1.5	43,276	1.9
Electronics	38,710	1.5	37,806	1.7
Cement	30,202	1.2	32,602	1.4
Others	123,821	4.9	134,264	5.8
Transportation and logistics	525,048	20.7	367,371	16.1
Power generation and supplies	343,038	13.6	281,179	12.3
Retailing, wholesale and catering	255,142	10.1	265,906	11.7
Property development	230,064	9.1	194,024	8.5
Education, hospitals and other non-profit organisations	107,403	4.2	103,070	4.5
Construction	49,957	2.0	89,666	4.0
Others	347,491	13.7	313,804	13.8
<b>Total</b>	<b>2,530,732</b>	<b>100.0</b>	<b>2,277,396</b>	<b>100.0</b>

- **Distribution of Loans by Collateral**

Unsecured loans reached RMB869,776 million in 2006, an increase of RMB195,692 million or 29.0%, indicating the growth of loans to customers with higher credit rating. Loans secured by mortgages amounted to RMB1,241,259 million, an increase of RMB117,915 million or 10.5%, constituting the largest component of all loans.

**DISTRIBUTION OF LOANS BY COLLATERAL**

in RMB millions, except percentages

Item	At 31 December 2006		At 31 December 2005	
	Amount	Percentage (%)	Amount	Percentage (%)
Loans secured by mortgages	1,241,259	34.2	1,123,344	34.1
Of which: personal housing loans	410,227	11.3	377,704	11.5
Pledged loans	710,391	19.6	726,379	22.1
Of which: discounted bills	412,313	11.3	392,717	11.9
Guaranteed loans	809,745	22.3	765,746	23.3
Unsecured loans	869,776	23.9	674,084	20.5
<b>Total</b>	<b>3,631,171</b>	<b>100.0</b>	<b>3,289,553</b>	<b>100.0</b>

- **Distribution of Loans by Currency**

At the end of 2006, RMB loans reached RMB3,395,106 million, accounting for 93.5% of total loan balance. Foreign currency loans were equivalent to RMB236,065 million, accounting for 6.5% of total. Of which, USD loans were equivalent to RMB128,920 million, HKD loans were equivalent to RMB88,215 million, and other foreign currency loans were equivalent to RMB18,930 million.

- **Distribution of Loans by Maturity**

At the end of 2006, the loans due for more than one year totaled RMB1,765,242 million, accounting for 48.6%; the loans due for less than one year amounted to RMB1,715,193 million, accounting for 47.2%, which were mainly composed of corporate working capital loans and discounted bills. Overdue loans reached RMB150,736 million, accounting for 4.2%.

**DISTRIBUTION OF LOANS BY MATURITY**

in RMB millions, except percentages

Remaining maturity	At 31 December 2006		At 31 December 2005	
	Balance	Percentage (%)	Balance	Percentage (%)
Overdue	150,736	4.2	167,789	5.1
Due less than 1 year	1,715,193	47.2	1,519,956	46.2
Due between 1 to 5 years	895,651	24.7	843,533	25.6
Due more than 5 years	869,591	23.9	758,275	23.1
<b>Total</b>	<b>3,631,171</b>	<b>100.0</b>	<b>3,289,553</b>	<b>100.0</b>

- **Restructured Loans**

At the end of 2006, restructured loans and advances amounted to RMB59,592 million, a decrease of RMB11,396 million. Of them, restructured loans and advances overdue for more than three months totaled RMB48,540 million, a decrease of RMB10,085 million.

### • Loan Concentration

At the end of 2006, ICBC's loans to the largest single borrower accounted for 3.1% of its net capital base; the loans to top 10 customers accounted for 21.7% of its net capital base, both meeting the regulatory requirements.

### MAJOR REGULATORY INDICATORS

	Regulatory Standards	At 31 December 2006	At 31 December 2005
Percentage of loans to top 1 single customer (%)	<=10.0%	3.1	5.2
Percentage of loans to top 10 customers (%)	<=50.0%	21.7	35.4

### BORROWER CONCENTRATION

in RMB millions, except percentages

Borrower	Industry	Amount	Percentage of total loans (%)
Borrower A	Manufacturing	16,711	0.5
Borrower B	Mining	16,030	0.4
Borrower C	Transportation and logistics	15,988	0.4
Borrower D	Transportation and logistics	10,500	0.3
Borrower E	Water works, environment and administration of public facilities	10,487	0.3
Borrower F	Data transmission, computer services and software	10,400	0.3
Borrower G	Water works, environment and administration of public facilities	10,107	0.3
Borrower H	Transportation and logistics	9,592	0.3
Borrower I	Mining	7,809	0.2
Borrower J	Power generation and supplies	7,757	0.2
<b>Total</b>		<b>115,381</b>	<b>3.2</b>

### • Loan Quality

At the end of 2006, in accordance with the five-category loan classification, the balance of pass loans of the Bank was RMB3,165,586 million, accounting for 87.18% of total loan balance, representing an increase of 1.03 percentage points. The special mention loans were RMB327,840 million, accounting for 9.03% of total loan balance, representing a reduction of 0.13 percentage points. The non-performing loans (NPLs) reached RMB137,745 million, with NPL ratio standing at 3.79%, representing a decrease of 0.9 percentage points.

**DISTRIBUTION OF LOANS BY FIVE-CATEGORY CLASSIFICATION SYSTEM**

in RMB millions, except percentages

Item	At 31 December 2006		At 31 December 2005	
	Amount	Percentage (%)	Amount	Percentage (%)
Pass	3,165,586	87.18	2,833,853	86.15
Special mention	327,840	9.03	301,283	9.16
NPLs	137,745	3.79	154,417	4.69
Substandard	66,756	1.84	93,049	2.83
Doubtful	62,036	1.71	56,704	1.72
Loss	8,953	0.24	4,664	0.14
<b>Total</b>	<b>3,631,171</b>	<b>100.00</b>	<b>3,289,553</b>	<b>100.00</b>

At the end of 2006, the balance of domestic corporate NPLs decreased by RMB15,160 million, with a decrease of 1.23 percentage points in NPL ratio. The balance of domestic personal NPLs decreased by RMB1,613 million, and NPL ratio decreased by 0.51 percentage points.

**NPLs BY BUSINESS LINE**

in RMB millions, except percentages

Item	At 31 December 2006		At 31 December 2005	
	NPLs	NPL ratio (%)	NPLs	NPL ratio (%)
Corporate loans	127,115	5.02	142,275	6.25
Discounted bills	—	—	—	—
Personal loans	9,298	1.61	10,911	2.12
Overseas operations	1,332	1.19	1,231	1.18
<b>Total</b>	<b>137,745</b>	<b>3.79</b>	<b>154,417</b>	<b>4.69</b>

At the end of 2006, the outstanding balance of NPLs and NPL ratio in the manufacturing industry decreased by RMB13,145 million and 2.14 percentage points respectively; the outstanding balance of NPLs and NPL ratio in retail, wholesale and catering industry decreased by RMB3,961 million and 1.09 percentage points respectively.

**DISTRIBUTION OF CORPORATE NPLS BY INDUSTRY**

in RMB millions, except percentages

Item	At 31 December 2006		At 31 December 2005	
	NPLs	NPL ratio (%)	NPLs	NPL ratio (%)
Manufacturing	68,334	10.16	81,479	12.30
Chemicals	12,969	11.49	14,004	13.20
Machinery	9,957	12.17	15,202	18.53
Iron and steel	3,084	4.38	2,985	4.35
Textile and apparels	6,611	9.67	8,730	14.74
Metal processing	4,280	6.84	4,485	8.33
Petroleum processing	836	1.87	691	1.55
Automobile	3,109	7.93	4,693	10.84
Electronics	3,238	8.36	2,772	7.33
Cement	5,281	17.49	7,319	22.45
Others	18,969	15.32	20,598	15.34
Transportation and logistics	6,687	1.27	3,864	1.05
Power generation and supplies	6,433	1.88	6,118	2.18
Retail, wholesale and catering	25,332	9.93	29,293	11.02
Property development	9,982	4.34	9,945	5.13
Education, hospitals and other non-profit organisations	3,199	2.98	3,511	3.41
Construction	1,508	3.02	1,784	1.99
Others	5,640	1.62	6,281	2.00
<b>Total</b>	<b>127,115</b>	<b>5.02</b>	<b>142,275</b>	<b>6.25</b>

**Provisions for Loan Losses**

At the end of 2006, the balance of provisions for loan losses reached RMB97,193 million, with NPL reserve ratio standing at 70.56%, up by 16.36 percentage points over the previous year end. The ratio of provisions over total loans was 2.68%, up by 0.14 percentage points.

**CHANGES IN PROVISIONS FOR LOAN LOSSES**

in RMB millions

<b>Balance at beginning of the year</b>	<b>83,692</b>
Provisions in the year	30,014
Accretion of interest on impaired loans	(1,890)
Transfer-out in the year	(3,479)
Write-off during the year	(11,144)
<b>Balance at end of the year</b>	<b>97,193</b>

## Investment

At the end of 2006, the balance of net investment securities amounted to RMB2,860,798 million, an increase of RMB555,109 million or 24.1% over the end of the previous year. The increase was mainly due to the growth of net debt instrument investment.

### INVESTMENT PORTFOLIO

in RMB millions, except percentages

Item	At 31 December 2006		At 31 December 2005	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Debt instruments	1,749,158	61.1	1,225,924	53.2
Receivables	1,106,163	38.7	1,074,461	46.6
Equity instruments	5,477	0.2	5,304	0.2
<b>Total</b>	<b>2,860,798</b>	<b>100.0</b>	<b>2,305,689</b>	<b>100.0</b>

At the end of 2006, the balance of net debt instrument investment reached RMB1,749,158 million, an increase of RMB523,234 million or 42.7%, mainly due to the increase in the Central Bank bills and the balance of investment in policy bank bonds. The Central Bank bills increased by RMB255,759 million or 50.6%, and investment in policy bank bonds rose by RMB74,762 million or 24.4%.

### CLASSIFICATION OF DEBT INSTRUMENTS

in RMB millions, except percentages

Item	At 31 December 2006		At 31 December 2005	
	Amount	Percentage (%)	Amount	Percentage (%)
Government bonds	348,445	19.9	309,867	25.3
Policy bank bonds	381,112	21.8	306,350	25.0
Central bank bills	761,548	43.5	505,789	41.2
Other bonds	258,053	14.8	103,918	8.5
<b>Total</b>	<b>1,749,158</b>	<b>100.0</b>	<b>1,225,924</b>	<b>100.0</b>

At the end of 2006, the balance of receivables reached RMB1,106,163 million, an increase of RMB31,702 million, accounting for 38.7% of total investment securities, down from 46.6% at the end of the previous year. Of the receivables, MOF receivables decreased by RMB19,622 million to RMB226,378 million. It was because MOF repaid receivables principal of RMB19,622 million.

## Liabilities Composition and Change

At the end of 2006, the balance of total liabilities reached RMB7,037,750 million, an increase of RMB841,495 million or 13.6%, of which, customer deposits remained to be a major source of funding and increased by RMB614,557 million, accounting for 73.0% of the increase of total liabilities. The amount due to banks and other financial institutions increased by RMB167,408 million or 71.9%, mainly due to the issue of new shares at the end of the year. The amount due to banks increased sharply.

in RMB millions, except percentages

Item	At 31 December 2006		At 31 December 2005	
	Amount	Percentage (%)	Amount	Percentage (%)
Customers deposits	6,351,423	90.2	5,736,866	92.6
Due to and placements from banks and other financial institutions	400,318	5.7	232,910	3.8
Repurchase agreements	48,610	0.7	32,301	0.5
Certificates of deposits	6,458	0.1	5,704	0.1
Debt issued	37,947	0.5	38,076	0.6
Other Liabilities	192,994	2.8	150,398	2.4
<b>Total liabilities</b>	<b>7,037,750</b>	<b>100.0</b>	<b>6,196,255</b>	<b>100</b>

## Customer Deposits

At the end of 2006, the balance of customer deposits reached RMB6,351,423 million, an increase of RMB614,557 million or 10.7%. In terms of customer structure, the proportion of corporate deposits increased by 1.4 percentage points, while that of personal deposits decreased by 2.0 percentage points. In terms of maturity structure, the proportions of time deposits and demand deposits remained stable.

Corporate deposits increased by RMB354,476 million or 14.3%, of which, corporate demand deposits increased by RMB196,591 million or 11.1%, and corporate time deposits rose by RMB157,885 million or 22.4%. The growth of corporate time deposits was attributed to the increase in time deposits of institutional customers.

Personal deposits increased by RMB208,052 million or 6.7%, of which, personal demand deposits increased by RMB95,413 million or 9.5%, and personal time deposits rose by RMB112,639 million or 5.4%. The slowdown in the growth of personal deposits was principally due to the diversion of personal deposits by the development of personal wealth management business of the Bank and the effect of active capital market on the diversion of personal deposits.

**DISTRIBUTION OF CUSTOMER DEPOSITS BY TYPE OF DEPOSIT AND BUSINESS LINE**

in RMB millions, except percentages

Item	At 31 December 2006		At 31 December 2005	
	Amount	Percentage (%)	Amount	Percentage (%)
<b>Corporate deposits</b>				
Time deposits	863,449	13.6	705,564	12.3
Demand deposits	1,974,736	31.1	1,778,145	31.0
Subtotal	2,838,185	44.7	2,483,709	43.3
<b>Personal deposits</b>				
Time deposits	2,215,439	34.8	2,102,800	36.6
Demand deposits	1,098,911	17.3	1,003,498	17.5
Subtotal	3,314,350	52.1	3,106,298	54.1
<b>Overseas</b>	105,209	1.7	68,920	1.2
<b>Others<sup>(1)</sup></b>	93,679	1.5	77,939	1.4
<b>Total deposits</b>	<b>6,351,423</b>	<b>100.0</b>	<b>5,736,866</b>	<b>100.0</b>

Note: (1) Others mainly included outward remittance and remittance payables.

**BALANCE OF CUSTOMER DEPOSITS BY GEOGRAPHIC REGION**

in RMB millions, except percentages

Item	At 31 December 2006		At 31 December 2005	
	Amount	Percentage (%)	Amount	Percentage (%)
Head Office	111,409	1.8	73,317	1.3
Yangtze River Delta	1,280,032	20.2	1,150,194	20.0
Pearl River Delta	839,725	13.2	785,937	13.7
Bohai Rim	1,686,142	26.5	1,524,750	26.6
Central China	878,446	13.8	796,921	13.9
Northeastern China	496,857	7.8	476,559	8.3
Western China	953,603	15.0	860,268	15.0
Overseas operations	105,209	1.7	68,920	1.2
<b>Total</b>	<b>6,351,423</b>	<b>100.0</b>	<b>5,736,866</b>	<b>100.0</b>

**DISTRIBUTION OF DEPOSITS BY REMAINING MATURITY**

in RMB millions, except percentages

Remaining Maturity	At 31 December 2006		At 31 December 2005	
	Amount	Percentage (%)	Amount	Percentage (%)
Payable on demand	3,190,873	50.2	2,878,156	50.2
Less than 3 months	1,108,245	17.3	1,098,275	19.1
3–12 months	1,472,879	23.2	1,357,413	23.6
1–5 years	581,930	9.2	403,898	7.0
More than 5 years	3,954	0.1	4,828	0.1
<b>Total deposits</b>	<b>6,357,881</b>	<b>100.0</b>	<b>5,742,570</b>	<b>100.0</b>

Note: Customer deposits and certificates of deposits are included.

At the end of 2006, the balance of RMB deposits reached RMB6,095,210 million, representing an increase of RMB592,883 million, accounting for 95.9% of deposit balance (including certificates of deposits). Foreign-currency deposits were equivalent to RMB262,671 million, of which, HKD deposits were equivalent to RMB88,658 million, representing an increase of RMB19,208 million or 27.7%, and USD deposits were equivalent to RMB155,269 million, representing an increase of RMB9,672 million.

**Shareholders' Equity**

In 2006, ICBC expanded its issued share capital and reserves remarkably by introducing strategic investors and raising funds through A and H Shares offering.

in RMB millions, except percentages

Item	At 31 December 2006	At 31 December 2005
Issued share capital	334,019	248,000
Reserves	126,286	2,559
Retained profits	6,159	5,280
Equity attributable to equity holders of the Bank	466,464	255,839
Minority interests	4,537	4,037
<b>Total equity</b>	<b>471,001</b>	<b>259,876</b>

## Capital Adequacy

### CAPITAL ADEQUACY RATIO

in RMB millions, except percentages

Item	At 31 December 2006	At 31 December 2005
<b>Core capital:</b>		
Share capital	334,019	248,000
Reserves	125,523	5,444
Minority interests	4,537	4,037
<b>Total core capital</b>	<b>464,079</b>	<b>257,481</b>
<b>Supplementary capital:</b>		
General provisions for doubtful debts	33,645	21,846
Reserve for net change in the fair value of available-for-sale investments	1,005	—
Subordinated bonds	35,000	35,000
<b>Total supplementary capital</b>	<b>69,650</b>	<b>56,846</b>
<b>Total capital base before deductions</b>	<b>533,729</b>	<b>314,327</b>
<b>Deductions:</b>		
Goodwill	(1,195)	(1,307)
Unconsolidated equity investments	(1,729)	(1,176)
<b>Net capital base</b>	<b>530,805</b>	<b>311,844</b>
<b>Core capital base after deductions</b>	<b>462,019</b>	<b>255,586</b>
<b>Risk-weighted assets and market risk capital adjustment</b>	<b>3,779,170</b>	<b>3,152,206</b>
<b>Core capital adequacy ratio</b>	<b>12.23%</b>	<b>8.11%</b>
<b>Capital adequacy ratio</b>	<b>14.05%</b>	<b>9.89%</b>

## Prospects

In 2007, following the end of the transition period of China's accession to the WTO, a fully-opened financial landscape has emerged. We now face a new business and competition environment. Judging from economic trends domestically and abroad, global industrial restructuring still forges ahead and economic globalisation will accelerate. The reform of the economic system in China will entrench with many new characteristics and uncertainties appearing during the economic transition period. The competition environment in the banking industry signals the arrival of a fully-opened era with continuous escalation of international competition. At the same time, major commercial banks in China have successively completed their restructuring and transition, with obvious enhancement in competitive capabilities. This has brought many business opportunities for ICBC but it has also increased the competitive pressure faced by ICBC.

ICBC will focus on the overriding objective of maximising shareholder value and sustainable growth, and will continue to establish and strengthen its position as a market leader through the following approaches and measures. First, ICBC will consolidate its market leading retail banking business by optimising the distribution of its outlets, developing personalised products and services targeting middle to high-end customers, promoting wealth management service, and establishing a customer-centric business environment for retail banking. Second, ICBC will achieve steady development of its credit business by maintaining an appropriate loan growth rate, introducing innovative marketing and service models, promoting new short-term financing services, driving the development of credit business to small enterprises and individuals, and strengthening credit risk management to ensure the quality of development of the credit business. Third, ICBC will accelerate the development of treasury and intermediary services, improve the overall deployment of non-credit assets, increase income generated from intermediary businesses, and upgrade the development of bank cards and electronic banking services. Fourth, ICBC will explore new ways of international development and comprehensive operations with concentrated efforts on investment banking by deepening its cooperation with insurance companies and increasing the speed at which its international business is upgraded and developed. Fifth, ICBC will strengthen technological innovation and IT strength and implement an integration project of management information system to enhance IT application. Sixth, ICBC will continue to improve corporate governance and overall risk management and establish itself as a bank with highly efficient and effective processes. Seventh, ICBC will attach importance to the development of human resources and corporate culture by driving a comprehensive human resources management reform covering the system of staff appointments, hierarchy of positions, performance evaluation and remuneration, increasing its efforts on education and training, and cultivating a culture commensurate with that of a modern financial institution.

## **Business Overview**

### **Corporate Banking**

In 2006, to further improve the competitiveness of corporate banking of the Bank, in accordance with the requirements of marketing by customer category and establish a bank with efficient procedures, the Bank adjusted the department establishment in the Head Office to strengthen the marketing capacity of the front office, and accelerated the streamlining of corporate banking organisations in branches to build layered marketing system. The Bank accelerated the implementation of a comprehensive marketing strategy for corporate banking. While consolidating its leading position in the deposit and loan market, the Bank took great efforts to develop emerging high-end corporate banking products and services such as investment banking, cash management, corporate wealth management, enterprise annuity and financial derivatives.

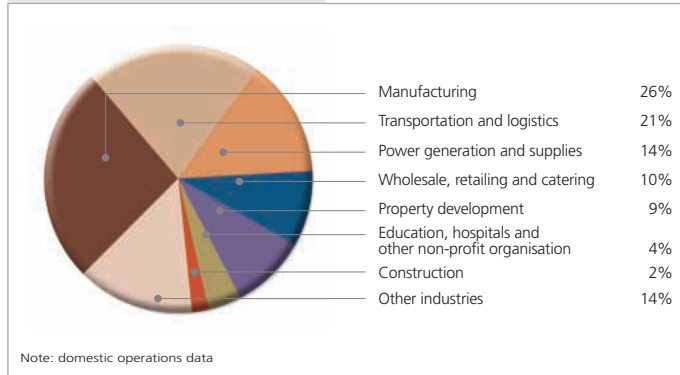
The Bank has a large corporate banking customer base in China. As of the end of 2006, the Bank had more than 2.41 million corporate banking customers.

### **Corporate Deposits and Loans**

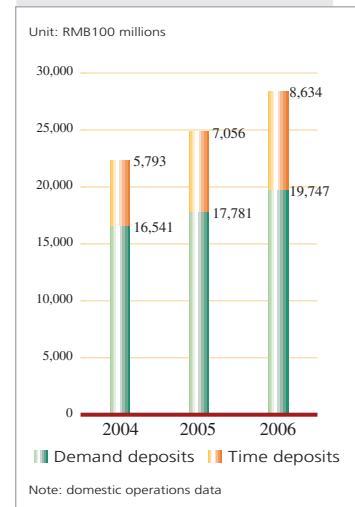
The Bank carried out a strategy of progressive and steady growth of corporate loans, continuously increased the credit investment in key basic industries and key infrastructure industry such as transportation and energy, steadily developed the real estate and urban construction credit market, reinforced the marketing to emerging industries such as medical care and cultural media and emerging customers such as multinational companies and small-sized enterprises, intensified the market development in key regions and accelerated the withdrawal from high risk industries and customers with low credit rating. While consolidating its position as the largest corporate credit bank in China, the Bank further optimised its industrial structure, regional structure, customer structure and product structure. The Bank launched a series of products such as domestic trade finance. As of the end of 2006, the balance of corporate loans in domestic corporations was RMB2,530,732 million, accounting for 69.7% of total deposits and an increase of RMB253,336 million from the end of the previous year. Of the loans, small enterprise loans and syndicated loans increased by RMB59.7 billion and RMB24,999 million respectively.

As of the end of 2006, deposits of domestic corporations were RMB2,838,185 million, an increase of 14.3% and accounting for 44.7% of deposit balances. The demand deposits of domestic corporations accounted for 64.2% of total demand deposits of domestic corporations of the Bank.

Balance of Corporate Loans



Growth of Corporate Deposits



### Institutional Banking

The Bank consistently explored new models of cooperation with insurance companies to strengthen the cooperation in respect of insurance agency, assets custody, cash management and e-commerce, and entered into comprehensive cooperation agreements with 22 domestic and foreign insurance companies. It was the first to provide “on-line insurance” services. The Bank steadily promoted the innovation of bank-securities and bank-futures businesses and products in respect of financing, settlement, agency and custody services, and developed business cooperation with 129 securities companies and 162 futures companies. It strengthened cooperation levels with peer banks, and formally established corresponding bank relationships with 60 domestic banking institutions, and significantly expanded the scale of payment and settlement agency services and agency clearing services. The Bank strengthened its scope of cooperation with government authorities, and developed such businesses as “Bank-Finance Link”, “Bank-Customs Express Pass”, “On-Line Bank-Finance Link” and “Bank-Taxation Link” into leading brands in the market.

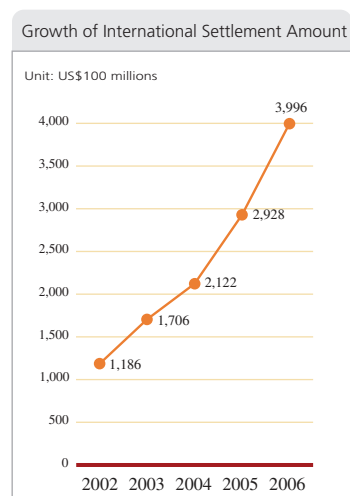
## Corporate Intermediate Businesses

### • Payment, Settlement and Cash Management

The Bank maintained its leading position in RMB clearing, settlement and cash management businesses. Cash management service includes cash collection, disbursement, account management and liquidity management. Group corporate customers operating in multiple regions may monitor and transfer funds between the group's different accounts in real time through the online banking platform, and realise real time centralised management of their internal liquidity. The Bank is also able to provide customised cash management service based on the demands of small and medium enterprises. At the end of 2006, the Bank had 31,408 cash management customers, an increase of 78%, of which 11 customers were among the 15 Chinese Mainland enterprises (excluding banks) listed on the "Top 500 enterprises" chosen by the Fortune in 2006. The Asia Currency called the Bank "Best RMB Cash Management Bank in China in 2006". At the end of 2006, RMB settlement amounted to RMB260 trillion, an increase of 40% as compared to the previous year.

### • Foreign Exchange Intermediate Business

The Bank provided corporate banking customers with diversified foreign exchange services including letters of credit, foreign exchange remittance, foreign exchange collection, etc. In 2006, the Bank actively developed the customised innovation of international settlement and innovation of derivatives services, integrated international settlement products and trade finance products, and designed 10 application plans of product portfolio. The international settlement business realised total electronic operation and management solutions, and the Documents and Bills Center for International Settlement was established at the Head Office, which further increased the efficiency of service. In 2006, international settlement of the Bank reached USD399.6 billion, an increase of 36.5%, of which international settlement by domestic entities accounted for USD290.2 billion, an increase of 29%.

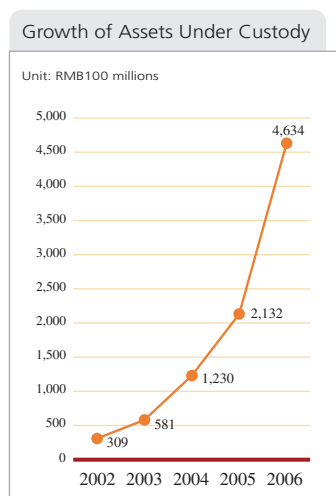


### • Investment Banking

The Bank proactively explored the interactive development of investment banking and traditional banking, steadily developed fundamental businesses such as corporate wealth management advisory services and credit standing services, focused on the expansion of branded businesses exemplified by advisory services for restructuring and acquisitions, structured financing, underwriting of syndicated loan arrangements, indirect advisory of syndicate and corporate listing, and proactively developed emerging businesses such as short-term financing bonds and asset securitisation. In 2006, the Bank issued 23 terms of financing bonds for 19 enterprises as the lead underwriter, with a total value of RMB46,340 million. The management system of long-term financial advisory business was put into operation, which continuously improved the business management efficiency. The Bank acted as the financial advisor in the Baosteel acquisition of Bayi Steel & Iron project which was chosen as one of the "Top Ten 2006 Strategic M&A Transactions" by the Contemporary Manager, a domestic finance and economics magazine.

### • Asset Custody Services

The Bank vigorously developed the asset custody business, and maintained its leading position in the domestic custody market. As of the end of 2006, total assets under custody amounted to RMB463.4 billion, an increase of 117.3%, of which RMB268.4 billion was securities investment funds, representing a market share of 32.13%; and assets of insurance companies and enterprise annuity amounted to RMB184.7 billion. ICBC operated assets of four qualified foreign institutional investors (QFIs), an increase of one QFI; it took the lead in putting forth the custodian operation solution for qualified domestic institutional investors (QDII), and successfully operated the first QDII products of funds companies, banks and insurance companies and became the largest QDII custodian bank in China. In 2006, the Bank defended the title of “Best Custodian Bank in China” granted by the Global Custodian, and was named “Best Custodian Bank in China” by The Asset, a Hong Kong magazine.



### • Precious Metal Business

The precious metal business of the Bank maintained steady development. Precious metal businesses include providing customers with physical bullion transactions, account bullion transactions and bullion derivatives and services. In 2006, the Bank newly launched bullion mortgage loan business and agency overnight bullion transaction business. The Bank is a member of the Shanghai Gold Exchange. As of the end of 2006, RMB63.2 billion of client funds were cleared with the gold exchange, representing a market share of 50.8%, ranking first among the Chinese commercial banks.

### • Enterprise Annuity

The Bank provided its customers with comprehensive enterprise annuity services such as trust advisory, account management, custody and value-added services. In 2006, with the continuous development of the enterprise annuity market, the enterprise annuity business grew rapidly. As of the end of 2006, the Bank entered into agreements with 303 new annuity customers, and reported an increase of 1.21 million personal accounts under management and an increase of RMB4.3 billion annuity funds under custody.

## Personal Banking

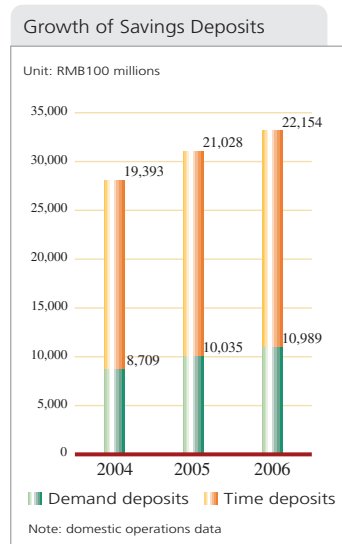
The Bank upheld the operation principle of “customer-focused, market-oriented and value-created”, and methodically reformed the operational management system of personal banking. The Bank restructured its business process and promoted the transition of mode of operation and method of growth. The Bank proactively optimised the customer structure, clarified the personal customer market position of “focusing on medium-end customers, competing for high-end customers and cultivating of potential customers”, brought the uniform customer view into effect, established layered customer service system and promoted the growth of medium- and high-end customers and potential customers. The Bank accelerated business structural adjustment, invested great efforts to develop personal wealth management and personal credit businesses, and conducted cross-selling to facilitate the harmonious development of various businesses. The Bank accelerated the transition and integration of service channels, intensified the building of wealth management centers, vigorously developed the e-banking business and set up an integrated multi-channel service system with equal focus on service outlets, on-line banking, phone banking, mobile banking and self-service banking businesses.

The Bank has the largest personal banking customer base in China. As of the end of 2006, it had more than 170 million personal banking clients. The Bank maintained its position of leadership within the domestic market in its principal businesses. According to PBOC data, the Bank was ranked first among Chinese commercial banks in terms of outstanding personal loans and deposits as of the end of 2006, respectively, accounting for 15.0% and 19.7% of the total market share.

### Personal Financial Services

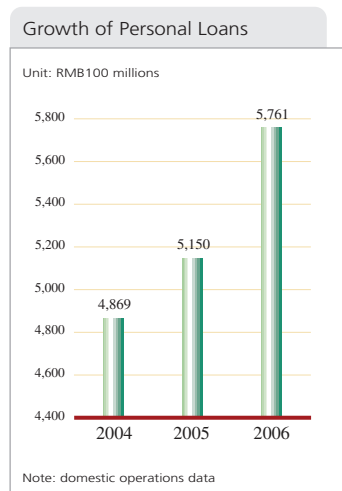
#### • Savings Deposits

The Bank harmoniously developed personal deposits and personal wealth management products, widely absorbed low-cost demand deposits, and proactively guided the customers to reasonably allocate medium- and long-term savings deposits and fixed-income wealth management products. As of the end of 2006, the balance of personal deposits was RMB3,314,350 million, an increase of RMB208,052 million or 6.7% from the end of the previous year. Personal deposits slowed down its rate of growth due to the diversion of personal deposits by the Bank's development of personal wealth management products and an active capital market. Influenced by factors such as the continuous appreciation of RMB, the willingness of customers to hold foreign currency assets decreased.



#### • Personal Loans

The Bank emphasised the development of personal loan business, primarily through personal housing loans, personal consumption loans and personal business loans, to improve the market competitiveness of personal credit business. The Bank comprehensively carried out the "standardised marketing of personal credit business project" to optimise and improve the mode of marketing and management of personal credits. The Bank focused on the innovation of personal credit products, and launched new personal credit facilities including direct-marketing personal housing loan, fixed interest personal housing loan, deposit-loan link and on-line banking personal pledged loan. The Bank launched 10 measures to improve personal credit service, including providing preferential unsecured loans for personal customers with good credit standing, broadening the purposes of mortgage loans and improving the process of second-hand housing loans. To satisfy the financing demands arising from the rapid development of private economy, the Bank actively and steadily developed personal business loans, primarily taking personal property as collaterals, the quality of asset is sound and has become the new point of growth of personal loan business.



As of the end of 2006, the balance of domestic personal loans amounted to RMB576,109 million, an increase of RMB61,067 million or 11.9%.

### • Personal Intermediate Business

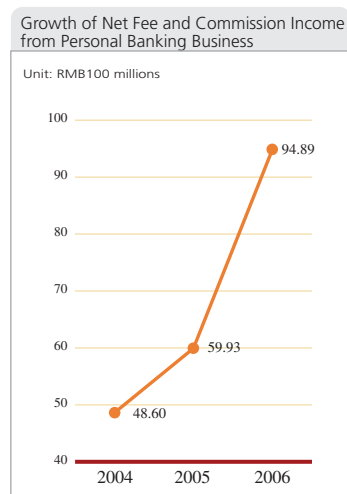
The Bank provides personal customers with personal wealth management, remittance and settlement, collection and disbursement, and bank card-related services. In 2006, driven by the personal wealth management business, the personal intermediate business of the Bank experienced rapid growth. The net service fee and commission income from personal intermediate business reached RMB9,489 million, an increase of 58.3%.

### • Personal Wealth Management

The Bank has established an enriched line of wealth management products denominated in RMB and foreign currency to satisfy the customers' individualised demands on currency, term structure, yield and risks. These products and services include "Wendeli", a low-risk RMB investment product guaranteed by the investment income from high quality RMB bonds and including trust loans, bond investments and new-share subscription; "Zhulianbihe", an RMB structured investment product linked to foreign currency derivatives; "Litianli", an account wealth management product connecting demand deposits of customers with low-risk funds such as money market and short-term bonds; "Huicaitong", a foreign currency wealth management product linked to exchange rate, interest rate, commodity price index and credit index. In addition, the Bank provided a foreign exchange product, known as "Huishitong", and gold trading services, known as "Jinhangjia". The Bank was the first Chinese commercial bank that officially provided agency overseas wealth management services for domestic residents. In 2006, the Bank issued a total of RMB75.49 billion personal wealth management products in RMB and foreign currencies, an increase of 2.98 times from the previous year.

The Bank provides personal banking customers with various third-party financial products, which mainly includes the issuance and trading of government bonds and open-end funds and bancassurance. In 2006, the Bank sold a total of RMB320.7 billion personal wealth management products on an agency basis, an increase of 98.3%. The Bank was the largest distributor of bearer form treasury bonds in China in terms of distribution volume, with a market share of 31.2%; it distributed savings (electronic) treasury bonds on a pilot basis, with a market share of 42.18%. The Bank distributed a total of RMB197.3 billion open-end funds, an 2.8 times increase; and it took the lead in launching the "fixed investment of funds" business and the first foreign currency fund in China. The Bank upgraded the "bank-insurance link" system, initiated the centralised cooperation between banks and insurance companies in China, and further consolidated its competitiveness in the agency insurance market. In 2006, it reported a premium income of RMB45.9 billion from the bancassurance products sold, representing an increase of 46% from the previous year.

In 2006, the Bank strengthened the promotion of the "Elite Club Account" brand, and comprehensively upgraded the functions of Elite Club Account service, it launched the VIP wealth management center and a variety of financial products especially designed for such customers to enhance the value of the brand. As of the end of 2006, the Bank had 2.36 million Elite Club Account customers, an increase of 25.5%. Experienced customer managers of the Bank provided customised wealth management services for Elite Club Account customers. The Bank employs 2,078 certified financial planners (CFP), the most in the domestic banking industry.



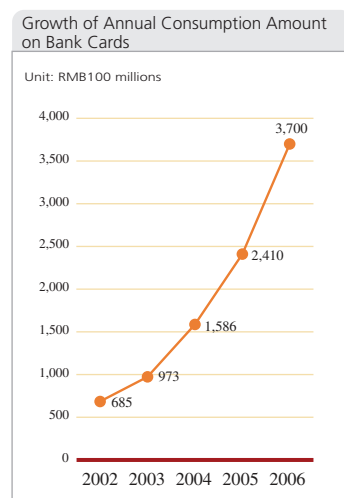
• Other Personal Intermediate Business

Remittance and settlement service: Taking advantage of its extensive networks and advanced e-banking platform, the Bank provides personal customers with account transfer and remittance services. The “Remittance Express” and “Inter-City Savings Link” are brands which are well recognised publicly. The Bank improved the functions of its remittance business, and added new functions such as ramble remittance and inter-city foreign currency remittance. In 2006, the personal settlement business reached RMB8.52 trillion, an increase of 19.3%.

Collection and disbursement services: The Bank provides its customers with various collection and disbursement services such as salary payment, utility bill payment, telecommunication bill payment and lottery agency service. The Bank encourages its customers to use the easily accessible e-banking network to carry out collection and disbursement, so as to relieve the pressure on the banking counters.

**Bank Card Business**

The quantity of bank cards issued and annual bank card transaction volume continued to grow rapidly. As of the end of 2006, 188.63 million bank cards have been issued, an increase of 29.9%; annual transaction volume amounted to RMB370 billion, an increase of 53.5%. The Bank continued to lead the market in terms of bank card transaction volume and bank card cross-bank transaction volume, with 10.47 million credit cards issued and an annual transaction volume of RMB105 billion. We are the first bank to break through the 10 million bank card issuance mark and the RMB100 billion credit card transaction volume mark, making it the largest credit card issuer in China. As of the end of 2006, bank card overdrafts amounted to RMB5,166 million, an increase of 50.6%; and the asset quality maintained a relatively high level in domestic market. The income from intermediate business of bank card reached RMB3,228 million for the whole year, an increase of 37.6%.



The Bank intensified efforts to innovate bank card products, and issued a series of new products in succession, including the 2006 World Cup theme card, Peony Student Card and Euro Credit Card. The Bank deepened its cooperation with American Express on credit card business, and launched the Peony PetroChina Express Card and Peony Express Commercial Card in cooperation with American Express. After issuing foreign brand credit cards such as Visa Card, Master Card and American Express Card, ICBC issued the first domestic brand credit card, Peony Unionpay Card, becoming a card issuer with one of the most complete line of credit card brands in China.

Item	2006	2005	Growth Rate (%)
Issued bank cards (unit: 10,000)	18,863	14,522	29.9
Annual transaction volume (unit: RMB100 million)	3,700	2,410	53.5
Average transaction volume per card (unit: RMB) <sup>(1)</sup>	2,217	1,660	33.6
Transaction clearing of external credit cards (unit: RMB100 million)	68	63	7.9
Designated merchants (unit: 10,000)	20	15	33.9

Note: (1)  $\text{Average transaction volume per card} = \frac{\text{Annual transaction volume}}{(\text{Issued cards at the period-beginning} + \text{Issued cards at the-period end})/2}$

## Treasury Operations

The treasury operations of the Bank mainly include money market activities, management of investment portfolio and agency treasury transactions.

### Money Market Activities

The money market transactional activities of the Bank mainly include short-term borrowing from and lending to other domestic and overseas financial institutions, and repurchase and buy-in transactions. With respect to RMB, the volatility of funds on the money market was more obvious as compared to 2005 due to the influence of such factors as macroeconomic measures and new share subscription, and the market interest rate fluctuated at a relatively high level. The cumulative outflows of RMB funds of domestic operations of the Bank amounted to RMB4,325.6 billion in the whole year; and the cumulative inflows of RMB funds amounted to RMB454.2 billion. With respect to foreign currency, the transaction volume on the money market reached USD605 billion in 2006.

### Management of Investment Portfolio

Investment securities portfolio primarily consists of debt securities. The Bank classifies the investment portfolio into debt securities at fair value through profit or loss, receivables, held-to-maturity securities and available-for-sale securities. The debt securities at fair value through profit or loss are held for the trading purpose and are managed through the trading account; while receivables, held-to-maturity securities and available-for-sale securities are managed through the banking account.

• **Business of Trading Account**

The Bank mainly conducts proprietary treasury operations at the Head Office. A total of RMB1.44 trillion business volume was realised in the RMB bond transaction accounts in 2006, a rapid 6.7 time increase. The Bank reinforced the market-maker business in the inter-bank market, adding commercial paper into its market-making bonds portfolio.

• **Business of Banking Account**

As of the end of 2006, the balance of investment in debt securities on RMB banking account was RMB2,617,183 million, an increase of RMB441,452 million. The medium- and short-term bonds continued holding the principal position, and the structure was generally stable. The Bank's RMB bond investment did not result in non-performing assets. As of the end of 2006, the balance of foreign currency bond investment amounted to USD27,793 million, an increase of USD14,619 million.

**Agency Treasury Operation**

The Bank provided its corporate and personal customers with a variety of treasury services. It provided spot foreign exchange trading services, forward foreign exchange trading services, and RMB and foreign currency swap services, and launched RMB interest rate swap service in 2006. It conducted 24-hour foreign exchange transaction, forward currency agreement, interest rate and currency swap and transactions of other financial derivatives on behalf of customers. In 2006, the volume of foreign exchange treasury transactions conducted by ICBC on behalf of customers amounted to USD195.4 billion, an increase of 36.5%, of which the volume of foreign exchange trading reached USD146.2 billion, representing a market share of 12% and second place ranking. The volume of RMB book-entry over-the-counter bond transactions was RMB2 billion, representing a market share of 47% and first place ranking.

## **Distribution Channels**

**Branch Network**

As of the end of 2006, the Bank had 16,997 institutions in Mainland China, including the Head Office, 30 tier-1 branches, 5 branches directly controlled by the Head Office, 383 tier-2 branches, 29 banking offices of tier-1 branches, 3,068 tier-1 sub-branches, 13,412 front line business outlets and 69 other institutions. The front line business outlets included more than 3,000 wealth management centers. In addition, the Bank had 98 branches, subsidiaries, representative offices and outlets abroad.

On the principle of controlled development, the Bank continuously optimised the allocation of outlet resources, reasonably reduced the overall scale of the institution, and established an outlet distribution layout of focusing on urban branches and giving priority to branches in large and medium cities.

## E-banking Business

Through the internet, telephone, mobile phone, ATMs and self-service banking centers of bank branches, the Bank provided diversified e-banking services to the corporate and personal customers. In 2006, the Bank expanded the e-banking customer base by expanding the outlets of e-banking demonstration projects, enriching the contents of e-banking products and websites, and developing a series of themed marketing activities. As of the end of 2006, the e-banking customers numbered 49.84 million, an increase of 42%. The e-banking transactions accounted for 30.1% of the total business of the Bank in terms of the number of transactions, an increase of 4.2 percentage points. The business volume of e-banking service reached RMB45.2 trillion, an increase of 50.6%<sup>1</sup>. The income from e-banking business reached RMB693 million, an increase of 64.6%. Because of the outstanding performance of e-banking business in the Bank, Chairman Jiang Jianqing was elected “Top 30 Personage of Electronic Finance” in the world by Institutional Investor, an American magazine, the only person elected from Mainland China.

### • Online Banking

ICBC provided corporate and personal online banking services through its website [www.icbc.com.cn](http://www.icbc.com.cn). In 2006, it strengthened the online banking wealth management platform, and launched various new products including Online Bullion, Litianli, Wendeli and Fixed Investment of Funds. With the launching of new products and services such as online shopping mall, online cross-border remittance, inter-city account management, online account reconciliation between bank and corporation and bulk payment system for enterprises, it further met the demands of personal and corporate customers. The online banking system was put into operation in three overseas branches in Seoul, Tokyo and Macau, initiating online banking business in oversea operations. The safety products including E-banking password card, security question validation and log-in with alternative user name have further improved the safety of the online banking system.

The Bank was granted the “Award for Network Application Innovation of Global Banks” in 2006 by the Banker, a British magazine; and was voted the “Best Corporate Online Bank of Investment Management in Asia” by Global Finance, an American magazine. The Bank’s personal online banking service also obtained the title of “Best Personal Online Bank in China” for the fourth successive time from the same magazine.

In 2006, personal and corporate online banking customers increased by 56.5% and 86.2% to 23.25 million and 600,000, respectively. The annual business volume of e-commerce online payment reached RMB19.5 billion, an increase of 67.5%.

<sup>1</sup> The Bank did not adjust internal fund positions through the online banking system since the operation of the fund centralised allocation system took place in 2006, and the statistics approach of e-banking transactions are adjusted accordingly.

• **Telephone Banking**

The Bank provided around-the-clock telephone banking service through the phone number “95588” in Mainland China and the phone number “21895588” in Hong Kong. In 2006, the telephone banking business launched new products such as telephone payment (BTOC), automatic payment and the payment reminder services. The telephone banking system was successfully linked to 7 branches such as the Tianjin branch. Currently, the integrated phone banking system has extended to 33 domestic operations, demonstrating the clear advantage of centralised and streamlined operation.

• **Self-service Banking Center and ATM**

The bank continuously consolidated its distribution network for self-service banking business to reduce cost and increase the efficiency of branch and sub-branch networks. As of the end of 2006, the Bank owned 2,704 self-service banking centers and 19,922 ATMs, an increase of 84% and 9%, respectively.

## **Overseas Business**

The Bank expanded its business in most major financial centers around the world. ICBC has branches in Hong Kong, Macau, Singapore, Tokyo, Seoul, Busan, Frankfurt and Luxemburg; and controlling institutions in Hong Kong, London, Luxemburg and Almaty; and representative offices in New York, Moscow and Sydney. As of the end of 2006, ICBC had a total of 98 branches, controlling institutions, representative offices and outlets abroad, and established corresponding bank relationships with 1,266 foreign banks in 117 countries and regions. As of the end of 2006, total assets of the Bank’s overseas branches and controlling institutions amounted to USD26.72 billion, an increase of 15.58% from the previous year.

In its effort to develop business in Southeast Asia, the Bank entered into an acquisition agreement with the Indonesian shareholder of Bank Halim Indonesia on 30 December 2006. In accordance with the acquisition agreement, ICBC will purchase 90% of the shares of Bank Halim Indonesia, making it the Bank’s first acquisition of a transnational bank and also its first entry into the foreign market by acquisition. As of 31 December 2006, the purchase of Bank Halim Indonesia remained pending.

## Operation of Controlled and Participated Companies

### Controlled Companies

#### • Domestic Controlled Companies

##### **ICBC Credit Suisse Asset Management Co., Ltd. (“ICBC Credit Suisse”)**

ICBC Credit Suisse, a controlled subsidiary of ICBC, has registered capital of RMB200 million, with the Bank holding 55% of the shares. It mainly engages in asset management and fund placement. In 2006, it was awarded “Emerging Star 2006” in the 4th “Taurus Award of Chinese Fund” sponsored by China Securities.

#### • Overseas Controlled Companies

##### **Industrial and Commercial Bank of China (Asia) Ltd. (“ICBC (Asia)”)**

ICBC (Asia), currently the largest overseas business institution of ICBC, has share capital of HKD2,242.52 million, with the Bank holding 59.72% of the shares. It provides comprehensive services such as personal banking business, personal wealth management, commercial business and corporate banking business, and plays a leading role in with respect to syndicate loan and structural loan in the Hong Kong market. As of the end of 2006, ICBC (Asia) reported total assets of HKD146,392 million, ranking sixth among all banks that are registered in Hong Kong with shares of themselves or their parent companies listed on SEHK. It owned net assets of HKD11,085 million, and generated profits attributable to shareholders of HKD1,246 million in 2006.

In 2006, ICBC (Asia) continued to push forward the integration of businesses and institutions. The integration of the Bank’s Hong Kong Peony Card Center was completed in March. In addition, it strengthened the optimisation and adjustment of branch network and set up a preliminary branch network system covering all major commercial areas and areas of commercial potential in Hong Kong.

##### **Industrial and Commercial East Asia Finance Holdings Ltd (“ICEA”)**

ICEA, a controlled subsidiary of ICBC, was incorporated in British Virgin Islands on 22 January 1998, and has share capital of USD20 million, with ICBC holding 75% of the shares. It mainly engages in investment banking and brokerage in Mainland China and Hong Kong. ICEA has its main operation in Hong Kong and has representative offices in Beijing, Shanghai and Guangzhou.

#### • Overseas Wholly-Owned Companies

##### **Industrial and Commercial International Capital Ltd (“ICIC”)**

ICIC, a wholly-owned subsidiary of ICBC, was incorporated in Hong Kong, China on 30 March 1973, and has share capital of HKD280 million. It mainly engages in commercial banking business.

### **Industrial and Commercial Bank of China, London Limited (“ICBC (London)”)**

ICBC (London), a wholly-owned bank of ICBC, started its operation in London, UK in September 2003 and its share capital is USD100 million. It principally engages in the business of commercial banking.

### **Industrial and Commercial Bank of China, Almaty Limited (“ICBC (Almaty)”)**

ICBC (Almaty), a wholly-owned bank of ICBC, was incorporated in Almaty, Kazakstan on 3 March 1993 and its share capital is USD10 million. It principally engages in the business of commercial banking.

### **Industrial and Commercial Bank of China, Luxemburg Limited (“ICBC (Luxemburg)”)**

ICBC (Luxemburg), a wholly-owned local bank of ICBC in Luxemburg, was incorporated in 2006 and its registered share capital is USD18.5 million.

## **Companies ICBC Holds 20% Shares or Above**

### **• Qingdao International Bank**

Qingdao International Bank, a Sino-foreign joint venture, was incorporated in Qingdao, Shandong Province on 17 April 1996. Its registered share capital is USD48,198,400, of which ICBC holds 20.83% of the shares. It principally engages in the business of commercial banking.

## **Information Technology**

The Bank implements its “technology-oriented” strategy and has set up an IT system to maintain safe and steady operation, achieve diversified and flexible research and development of products, construct a mature and scientific technical framework and centralise the efficient technology management. In 2006, the Bank was given the “Networking initiative of the Year” award by the Banker and adjudged the “2006 Outstanding Chinese Enterprise in Information Technology Establishment” by China Center for Information Industry Development and China Federation of IT Promotion.

### **Further Improvement of IT System**

The Bank restructured its core application systems to address the needs of its business lines and reduced the operation risk after data centralisation, thereby accelerated the pace of product research and development.

### **Enrichment of Application Products**

The Bank promoted the continuous innovation of financial products through advanced information technology. It completed the development of 173 new application projects and optimised the functions of 365 existing projects. It enriched its products including those in relation to personal wealth management, bank card, e-banking business and made breakthrough in products in relation to settlement and financial market, and provided the customers with abundant and convenient services. In 2006, the Bank submitted 22 patent applications to the State Intellectual Property Office, among which “Utility Model Patent” was granted to two of the applications and invention patent was granted to the “Encryption and Certification Methods of On-line Banking Data”. As of the end of 2006, ICBC owned 58 patents.

### Continuous Progression of the Establishment of Management Information

The application of personal credit management system has been promoted across the board, and systems such as corporate credit management system, comprehensive statistics system and personal and corporate customer relationship management system have been further improved and refined. The Bank has completed the promotion of accounting risk monitoring system, and significantly enhanced the competence of operation, management and risk control.

### Safe and Stable Operation of Information System

The Bank strengthened the standardised and systematic management of information system, and maintained safe and steady operation of the system. The Bank completed the inter-city disaster backup project for overseas data centralisation system, and emergency and disaster drill for the recovery of business was carried out for the first time in overseas branches. The constant operation of information system was improved, and the emergency and disaster drill for the recovery of business was implemented throughout ICBC.

## Human Resources Management

### Human Resources Management and Incentive and Disciplinary Measures

The Bank further deepened the reform of human resources management and the incentive and disciplinary measures, and established a modern human resources management system which is focused on the positions of the staff. It introduced the concept of Economic Value Added (EVA) and Gain Sharing Rate (GSR), improved the salary distribution system of the branches, established a performance-based salary distribution system which focuses on the creation of value, and realised the harmonious growth of employee's income, corporate value and shareholders' return. In addition, it further improved the sequential compensation system and promoted the compensation reform for sales and marketing staff and professional staff. It also set up a comprehensive enterprise annuity system and improved the employee welfare security system.

### Cultivation and Development of Human Resources

In 2006, ICBC held various training courses of 40,000 terms, and 1.94 million people were trained with 9.43 days training per person on average. It launched four training projects such as "Pine Street" leadership training project and training for senior and professional elites jointly with its strategic investor, Goldman Sachs and held trainings on strategic transition for management personnel at all levels. It also introduced the authoritative qualification certification system in the international financial industry and organised training courses for talents at senior levels such as financial risk managers (FRM) and certified financial planners (CFP), and steadily promoted training programs that lead to professional qualifications with a view to improving employee's expertise. It implemented the pre-job training system for employees, paving way for the standardisation of management and service in the whole bank. It promoted the establishment of IT-based education system, launched the long-distance internet education system, and set up an online university based on the integration of intranet and internet, thereby providing employees with a network platform of on-line training and self-study.

### Reform of Head Office and Branches

The Bank initiated integration of process in some key businesses and the restructuring of organisational structure from top to bottom in order to further refine its corporate governance mechanism, build a scientific, reasonable, concise and efficient organisational structure and promote the transition of the Bank's operation and management strategies.

#### • Reorganisation of Front-Office Business Departments

In respect of the corporate banking business, the Bank established a diversified marketing system for different business categories and set up the Corporate Banking Department I, the Corporate Banking Department II and the Settlement and Cash Management Department at the Head Office to implement direct marketing and management on large customers, medium and small customers and non-loan customers, respectively. In respect of treasury business, it integrated the functions of treasury transactions in both domestic and foreign currencies and set up the Global Market Department in the Head Office to establish a unified platform for treasury transactions and undertake the management responsibilities in treasury transactions of domestic and foreign currencies in the domestic and overseas financial markets.

#### • Strengthening and Centralising Risk Management Functions

To improve the risk management capability, the Head Office further divided functions such as credit rating, credit review and credit supervision through the establishment of the Credit Rating and Facility Department, the Credit Review Department and the Risk Management Department and the reorganisation of the Credit Management Department. It appointed the Chief Risk Officer to assist the President to supervise and decide on risk management of the Bank. The functions such as customer rating, credit extension, credit evaluation, credit review and credit supervision in operations below Tier-1 branches (branches directly controlled by the Head Office) were centralised to the Credit Review Department, the Credit Management Department or other departments of Tier-1 branches (branches directly controlled by the Head Office) in order to further promote the integrated operation and management of credit business, improve the level of credit review decisions and construct an independent and centralised credit risk control system.

#### • Integrating the Functions of Capital and Financial Management for Intensified Operations

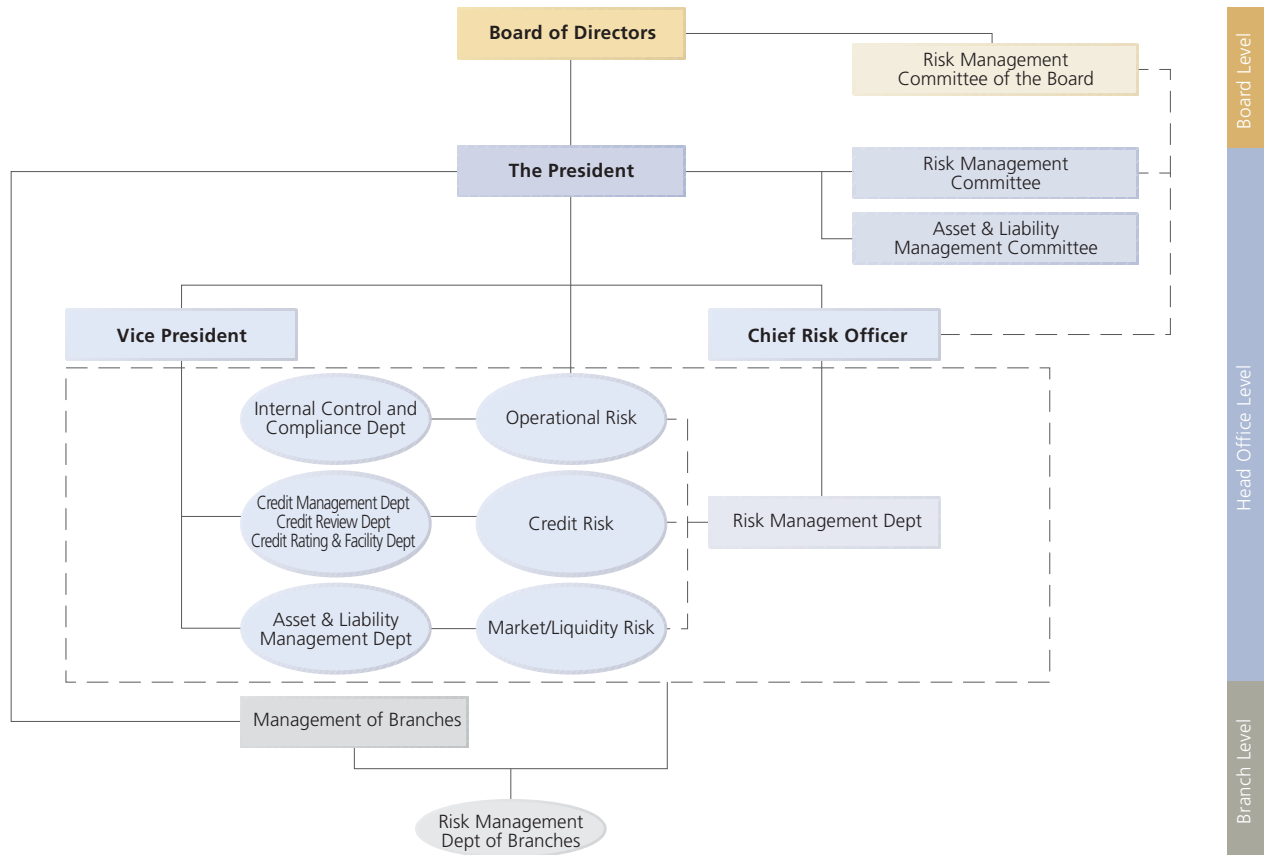
To optimise the allocation and management of economic capital and improve the rate of return, the Head Office set up the Asset & Liability Management Department and the Finance and Accounting Department to undertake the management of assets, liabilities and financial accounting. Besides, it established the Operation Management Department to promote sharing of service and operation resources.

After the reform, the Head Office dissolved the original Corporate Banking Department, the Credit Evaluation Department, the Asset Risk Management Department, the Consumption Credit Management Department, the RMB Treasury Department, the Financial Planning Department and the Accounting and Settlement Department; meanwhile renamed the Personnel Department into the Human Resources Department. It revised the functions of the Institutional Banking Department, the Investment Banking Department and the International Banking Department. Under the overall framework of organisational reform in the Head Office, branches at all levels suitably reformed their own business processes based on the requirements for improving corporate governance structure and transition of operating mechanism.

## Risk Management

### Risk Management System

See the following chart for the risk management structure of the Bank:

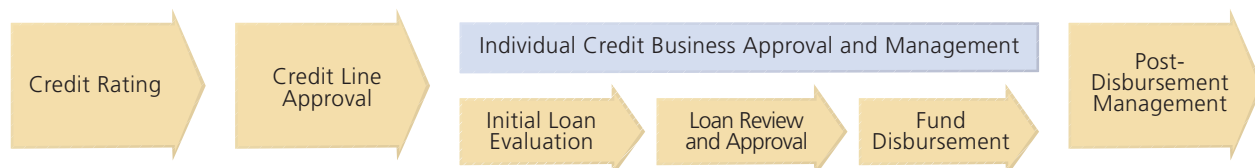


In 2006, ICBC launched organisational reform and process integration in respect of risk management, further refined the comprehensive risk management system and the checks and balances system for risk management restriction, clearly clarified the functions of front, middle and back offices, and defined the risk management responsibilities of all levels. The Bank appointed the Chief Risk Officer to assist the President to supervise and decide on risk management of the Bank. It has established a relatively centralised and independent risk management system which is aimed at improving its risk management capability.

## Credit Risk Management

### Credit Risk Management in Corporate Loan Business

The Bank further strengthened loan management and improved the loan review procedures so as to ensure the independence and validity of loan review. The process of credit risk management in corporate banking businesses of the Bank is as follow:



In 2006, the Bank pushed forward the intensive operation and management of credit business, improved the capability of credit review and decision-making, built an independent and centralised credit risk control system, and centralised the functions of client rating, credit extension, assessment, review and credit supervision of institutions below tier-1 branches (branches directly controlled by the Head Office) to the Credit Rating and Facility Department and Credit Management Department of tier-1 branches (branches directly controlled by the Head Office) or their sub-divisions or resident teams for unified implementation.

The Bank continued to improve the credit policies for corporate customers, implemented differentiated credit policies by regions, industries, customers, products, etc. and strengthened the adjustment of credit structure. The Bank has refrained from participating in high-risk industries and enterprises in order to avoid the systematic risks effectively.

- Regional credit policies. The Bank analyzed and evaluated the credit business of branches in respect of credit development, risk management, market resources and external credit environment, etc. and adopted various policy instruments to direct and drive the healthy and rapid development of credit businesses in the Yangtze River Delta, Pearl River Delta and Bohai Rim. Besides, the Bank adhered to and improved its risk precaution system and its system in relation to suspension and resumption of trading to impose stringent control over regional risks.
- Industrial credit policies. Based on the trend of macro-economic development and the orientation of industrial policy, the Bank prepared and issued the industrial credit policy in 2006, which covered 22 industries including those with abundant space for entry and those with excessive capacity or potentially excessive capacity. On the principle of “optimisation of total output, appropriate implementation of and exit strategies and appropriate adjustment of structures”, the Bank launched targeted management on some key industries, which defined the priorities and directions of credit extension and set forth the goals of structural adjustment.

- Credit policies for real estate industry. In 2006, the Bank upheld the intensive operation principle of focusing on quality developers and large & medium-sized cities for its real estate credit business. It proactively adjusted the directions of housing loans and gave priority to the construction and consumption of medium/low-grade and medium/small-sized properties in accordance with relevant macroeconomic measures on real estate issued by the government, and strictly controlled the real estate loans in high-risk regions. The Bank increased the proportion of down payment of personal housing mortgage loans according to the regulations, and refused to extend credits to those real estate enterprises with project capital ratio of less than 35% or with outstanding certificates. The Bank further regulated the business flow and established a closed management system for development loans and mortgage loans.
- Credit policies for trade finance. The Bank attached great importance to trade finance in 2006. It set up a preliminary credit management system and credit policies which adapted to the characteristics of trade finance from the perspectives of system, mechanism, flow, product innovation and risk monitoring and control.

#### **Credit Risk Management in Loans to Small Enterprises**

- The Bank actively promoted the product and management innovation in the business of credit extension to small enterprises, and implemented differentiated credit policies for small enterprises based on the credit environment, management level and credit resources while steadily driving forward the credit extension to small enterprises.
- By increasing the proportion of the amount of credits extended to individual small enterprise client, the Bank increased the weight of collaterals, and strengthened the monitoring and management over enterprise's cash flow and recovery of loans.
- The Bank upgraded and improved the credit management system, and further implemented the electronic management and rigid control.
- The Bank conducted off-site monitoring over the quality of loans to small enterprises across the whole bank on a monthly basis, analyzed hidden risks and disclosed risk points based on the monitoring results. Sanctions such as warning, rectification and suspension were imposed on branches and institutions whose loan quality was beyond the risk control limit.

#### **Credit Risk Management in Personal Loan Business**

- The Bank implemented differentiated personal credit policies according to the regional credit environment and the operation of branch offices, and rationally channeled the credit resources to regions with sound economic environment, abundant financial resources and high-quality credit assets through authorisation and other policy instruments.
- The Bank vigorously developed the business of personal housing loans and personal consumption loans. In respect of personal housing loans, the Bank supported the granting of loan in respect of self-use properties and strictly controlled the mortgage loans in respect of properties that are subject to investment and speculation and high-end properties.

- The Bank improved the Personal Credit Management System (PCM2003 system).
- By launching the Project of Personal Credit Review System, the Bank remarkably improved the credit review process for personal loans, clarified the duties and responsibilities of each link and further enhanced the efficiency and risk control capability.
- The Bank further improved the 5-category classification of personal credit assets, and refined the classification standards and procedures.

### Credit Asset Classification Management

The Bank adopted the 12-tier classification management on the quality of corporate loans based on a comprehensive consideration of credit rating, securities provided, number of days of loans remain overdue and other quantitative and qualitative factors of the borrowers. It implemented the 5-tier classification management on the quality of personal loans based on a comprehensive consideration of number of months of borrower being in default, expected loss ratio, credit status, securities provided and other quantitative and qualitative factors of the borrowers. The quality of credit assets was preliminarily classified by the computer system, and the credit management departments manually modified the preliminary classification results according to the actual conditions upon the authorisation, and determined the quality classification of loans. The detailed classification of loan quality was conducive to better monitor the changes in asset quality, identify potential credit risk, effectively carry out post-loan management, and enhanced the overall credit management capacity.

### Management of Non-performing Loans

For the management of substandard loans, the Bank mainly monitored the current assets and cash flow of the borrowers, and paid attention to the material business changes. For the management of doubtful loans, the Bank kept a close eye on the business status of the borrowers and the guarantors, enhanced the examination and preservation of borrower's assets, and recovered these loans proactively. For the management of loss loans, the Bank strived to recover such loans apart from writing off such loans in accordance with the regulations.

The Bank adopted the following measures to recover non-performing loans: (i) issuing notice of demanding payment; (ii) cash collection; (iii) restructuring of NPLs; (iv) disposal of collaterals or realisation of guarantee; (v) recovery by legal proceeding or arbitration; and (vi) writing-off in the case of being unable to recover loans by any other methods.

To improve the management of restructured loans, the Bank implemented a series of guidelines in April 2006 which elaborated the definitions, applicable clauses and responsibilities in relation to investigation, review and post-restructuring management for restructured loans. According to these guidelines, the restructured loans should not be immediately classified into any tier higher than substandard after the restructuring. If the restructured loan is still overdue or if the borrower is unable to repay the loan, the restructured loan should not be classified into any tier higher than doubtful. The classification of restructured loans should not be adjusted to a higher tier in the 6-month observation period.

### Credit Risk Management in Credit Card Business

The Bank strengthened the early identification, quantitative evaluation and pre-warning control of credit risk in the early stage of the risk management process. The Bank fully improved and launched more than 20 operation processes, implemented the centralised collection of debts under debit card, credit card and wealth management card due from customers, and accomplished centralised credit review of every tier-1 branch. Besides, the Bank organised and promoted the application of peony card review system in 30 tier-1 branches and branches directly controlled by the Head Office, realising the automated, procedural and computerised management of credit review and examination, and implemented the parameter of judgment conditions for anti-fraud authorisation.

### Credit Risk Management in Treasury Operation

The investment and inter-bank placement activities of the Bank brought credit risks to the treasury operation of the Bank. The amount of bonds purchased from any domestic or overseas entity except the PRC government or the placement with any other banks at home and abroad shall be subject to the restriction of total credit line approved for the entity. The RMB investment portfolios mainly include debt securities issued by Chinese government and other domestic issuers, while the foreign currency investment portfolios mainly include investment-grade bonds.

## Liquidity Risk Management

Liquidity risk means that the Bank fails to raise funds to meet the present or future demands of customers or counterparties at a reasonable cost. The liquidity risks of the Bank are mainly resulted from operating activities such as premature or collective withdrawal by depositors and borrowers, overdue payment of debtors, unmatched asset-liability maturity structure, increasing difficulties in realisation of assets, and the daily management of working capital positions.

Through centralised liquidity management, the Bank centralised funds of tier-2 branches and subordinate branches to tier-1 branches for centralised allocation and management, and guided branches to adjust their asset-liability maturity structure by internal fund transfer pricing system. Moreover, the Bank adopted a series of measures to improve the liquidity management, including: (i) using a series of liquidity parameters to monitor the liquidity position of the Bank on a daily basis, and reporting the monitoring results to Asset & Liability Management Committee quarterly; (ii) constantly monitoring and adjusting the balances and structures of cash, due from PBOC and other banks and other interest-earning assets to ensure meeting the future liquidity demand; (iii) monitoring the liquidity ratio to comply with relevant regulations and internal requirements, and adopting sensitivity analysis to evaluate the liquidity demand of the Bank; (iv) establishing the liquidity risk pre-warning system and contingency plans.

As of the end of 2006, liquidity indicators of the Bank are illustrated below:

### LIQUIDITY REGULATORY INDICATORS

		Regulatory Criteria	As at 31 December 2006	As at 31 December 2005
<b>Liquidity Ratio (%)</b> <sup>(1)</sup>	RMB	>=25.0%	48.9	48.9
	Foreign Currency	>=60.0%	84.8	83.4
<b>Loan-deposit Ratio (%)</b> <sup>(2)</sup>	RMB and Foreign Currency	<=75.0%	50.5	49.9
<b>Borrowing and Loan Ratio (%)</b>	RMB Borrowing Ratio <sup>(3)</sup>	<=4.0%	0.0	0.0
	RMB Loan Ratio <sup>(4)</sup>	<=8.0%	0.2	0.1

Notes: (1) Year-end balance of current assets divided by year-end balance of current liabilities.

(2) As for domestic branches, it is calculated by year-end loan balance divided by year-end deposit balance. Loan balance excludes discounted bills, and deposit balance excludes fiscal deposits and outward remittance.

(3) As for domestic branches, it is calculated by dividing RMB net due from and placements with banks and other financial institutions by RMB deposit balance.

(4) As for domestic branches, it is calculated by dividing RMB net due from and placements with banks and other financial institutions (net of provision) by RMB deposit balance.

## Market Risk Management

Market risk mainly comes from the changes in interest rate, exchange rate, stock price, the price of bulk commodity, as well as other market changes which may impose impact on products of high market risk sensitivity. Market risks of the Bank mainly consist of interest rate risk and exchange rate risk. The Bank initiatively adapted itself to the reform of market based interest rate and RMB exchange rate regime, and adopted a set of exposure limitations on investment and trade activities, which effectively controlled the potential market loss under the acceptable limit.

The Bank separated the function of monitoring market risk exposure of middle offices from the treasury operation of the front offices. Under the leadership of the Market Risk Management Committee of the Head Office, the Asset & Liability Management Department will be mainly responsible for managing market risk management, and the Global Market Department processed front-office transactions according to the guidelines and limits set by the Asset & Liability Management Department. The Bank classified its assets in accordance with international accounting standards, set market risk limits for trading accounts in accordance with the approved policies, and monitored the market value of our tradable securities on a daily basis. The Bank adopted the analysis methods such as duration, bond convexity and basis point value to evaluate the risks related to trading accounts.

### Management of Interest Rate Risk

Interest rate risk refers to the risk that the inferior change of financial positions of the Bank resulted from adverse change in interest rate. The interest rate risks of the Bank mainly come from maturity mismatching of interest-rate-sensitive assets and liabilities or the mismatching of re-pricing date.

The Bank adopted a series of core indicators of interest rate risk management, standards of interest rate sensitivity gap analysis and guidelines on interest rate risk management. The interest rate risk analysis mainly includes evaluation on the gap between interest-rate-sensitive assets and liabilities, and the measurement of potential exposure sensitivity of loan portfolio and total deposits after the changes in interest rate.

In 2006, the Bank took advantage of information technology to improve its management of interest rate risks. The Bank keeps itself informed of market developments through the establishment of the interest rate risk management information system for commercial banks, and the Bank continuously enhanced its capabilities in measuring and monitoring interest rate risk and accurately measured the interest rate sensitivity of assets and liabilities in the entire bank and the impact of change in interest rate to net interest income.

By the end of 2006, the accumulative positive gap of assets and liabilities was RMB504,971 million, while the accumulative negative gap of interest rate sensitivity which matured within one year was about RMB673,234 million, among which the negative gap maturing within 3 months took up the largest proportion. For the adverse impact of negative gap maturing within one year, the Bank reduced the interest rate risk exposure by adjusting the loan re-pricing period and controlled the re-pricing period of most credit assets within one year in order to obtain benefits from interest rate rise during the ascending period of interest rate.

### Management of Exchange Rate Risk

ICBC's management of exchange rate risk includes the risk management on structural exposures and trade-related exposures.

Structural exposure was caused by currency mismatching between structural assets and structural liabilities. The Bank eliminated exchange rate risks arising from currency mismatching of assets and liabilities by matching the currency structure of assets and liabilities. In addition, the Bank reduced the scale of foreign currency exposures through foreign exchange settlement to manage and control exchange rate risk.

In April 2005, the Bank and Huijin entered into an agreement on purchase of a foreign currency option with a nominal principal of USD12 billion. According to the agreement, the Bank may convert the foreign currency assets of up to USD12 billion into RMB at the agreed exchange rate of RMB8.2765 per dollar, and the option can be exercised in equal installments in the 12 months of 2008. Meanwhile, the Bank shall pay Huijin total option expense of RMB2,979 million in equal installment in the 12 months of 2008.

In 2006, the Bank obtained the approval from State Administration of Foreign Exchange to settle partial foreign currency working capital, the contributed capital of Goldman Sachs Strategic Investment Group and the foreign exchange funds raised in IPO and such settlement amounted to USD10.8 billion. The remaining foreign exchange funds raised in IPO has been settled and swapped by the end of March 2007.

Trade-related exposure mainly arises from risks in proprietary or customer-driven foreign exchange transactions of the Bank. The Bank managed and controlled the exchange rate risk arising from trade-related exposure by establishing trade-related exposure limit and stop-loss limit, entering into financial derivatives transactions and foreign exchange transactions and the establishment of forward foreign exchange settlement & trade system according to its risk bearing capacity and transaction level.

The Bank monitored foreign exchange risk exposure on a quarterly basis and reported it to CBRC, and analyzed the sensitivity of exchange rate risks quarterly and submitted the exchange rate risk management report to the Risk Management Committee at the management level.

### **Operational Risk Management and Internal Control**

Operational risk refers to the risk of loss caused by inadequate and failed internal control, artificial or systematic factors, or external events. The operational risks of the Bank arise from various factors including internal fraud, external fraud, customers, products and business operation, implementation, delivery and process management, business interruption and system fault, damage to physical assets, employment policies and workplace safety, and the legal proceedings brought against malpractices.

In 2006, the Bank continually improved the management framework, system platform and technical methods for operational risk management, and further enhanced the management of operational risk of the whole bank. In particular, the Bank modified the work rules of Operational Risk Management Committee, clarified the definition and classification of operational risk and clarified the operation mechanism and environment construction for operational risk management under the framework of comprehensive risk management. The Bank promoted and implemented Operational Risk Management Manual across the bank, and organised the monitoring of operational risk to identify, report and disclose operational risks in relevant businesses in a timely manner. The Bank studied and formulated Provisional Measures on Statistics Management of Operational Risk Loss Events, intensified the efforts to IT system research and development, and consolidated rigid control over operational risk management. The Bank actively launched inspections of the operational risk management, evaluated risk status objectively and fostered the culture of operational risk management which resulted in the effective control of operational risks across the board.

In 2006, the construction of internal control system was continuously deepened. The Bank improved the corporate governance structure, established the Risk Management Committee and the Asset & Liability Management Committee at the level of the Management and appointed Chief Risk Officer. Through organisational reform, the Bank further promoted effective separation and process rebuilding of front-, middle- and back-office business, and restructured the corporate banking department, personal banking department and treasury business department. A highly flexible asset-liability management system has been formed, and the Bank has set up a new financial management system that minimises cost, risks and capital and a unified united capital transaction platform covering both domestic and international markets. The Bank simplified the management hierarchy in branches and marketing outlets, implemented the streamlined structure, and improved the efficiency of control. It enhanced formulation of business regulations, formulated Business Operation Guidelines and the standardised operation processes for over-the-counter businesses. The Bank started to establish the management system for the rank structure with emphasis on nature and value, and gradually set up a diversified promotion, performance evaluation and remuneration incentive system for employees. The Bank further intensified the compliance inspection on various businesses and internal control evaluations on tier-1 branches, branches directly controlled by the Head Office and the front line offices, and developed the information system for internal control evaluation to improve the efficiency and results of internal control evaluation.

### **Anti-Money Laundering**

In accordance with relevant laws, regulations and supervisory requirements on anti-money laundering, the Bank continually improved the internal control system for anti-money laundering, carefully verified and identified the identity of customers, preserved account opening materials and transaction records of customers in accordance with the provisions, reported large-value and suspicious transactions to the supervisory agencies, and assisted the supervisory and administrative authorities to investigate and sanction anti-money laundering activities in accordance with the law.

In 2006, the Bank conducted a special inspection on anti-money laundering across the bank which involved various aspects such as the establishment of anti-money laundering institutions and relevant internal control system, appointment of anti-money laundering staff, identification of customer's identity, reporting and registration of large-value and suspicious transactions, preservation of account information and transaction records, anti-money laundering education and training. The Bank held various trainings on anti-money laundering to improve the awareness of management personnel at all levels on anti-money laundering responsibilities, and consolidated the skills and experience of heads and operators of the basic divisions.

## **Public Charity Projects**

### **Assistance to Designated Poverty Alleviation Areas**

We assisted in the alleviation of poverty by focusing our efforts in the provision of education assistance, sanitation assistance, disaster relief and specific poverty relief and by assisting local governments in the construction of new countryside. In 2006, we donated a total of RMB1.673 million and organised the employees to donate RMB113,000 to local people during the severe draught in designated poverty alleviation areas.

### **Assistance to Agriculture Division No. 12 of Xinjiang Production and Construction Corps and Burqin County of Aletai Region**

ICBC donated RMB900,000 in total to Burqin County of Aletai region of Xinjiang and Agriculture Division No. 12 of Xinjiang Production and Construction Corps to which the fifth Xinjiang-supporting cadres are attached for improvement of educational and living conditions of local students.

### **Donation to Heifer International**

We donated HKD800,000 to Hong Kong Branch of Heifer International and took part in the specific poverty alleviation program by promoting the domestic breeding project in Wanyuan City and Nanjiang County of Sichuan Province to relieve the local farmers from poverty and spread the spirit of self-support and helping each other.

### **Sponsorship to Treasures of the World's Culture**

ICBC sponsored the Treasures of the World's Culture activity jointly held by British Museum and Capital Museum of China with a contribution of GBP50,000.

### **Donation to the Community Chest**

ICBC donated HKD1 million to the Community Chest on 27 October 2006.

### **Contributions to the "Caring for the Disabled: Legal Aid Program"**

ICBC donated RMB2.3 million on the fifth International Day of Disabled Persons and held the "ICBC and The Same Song of CCTV: Legal Aid to the Disabled" activity together with the Department of Justice and China Disabled Persons Federation at the Great Hall of the People.

## Significant Events

### Material Legal Proceedings and Arbitration

ICBC is involved in legal proceedings in the ordinary course of business. Most of these legal proceedings involve enforcement claims initiated by ICBC to recover payment on non-performing loans. Some legal proceedings were arisen from customer disputes. As at 31 December 2006, the amount of unresolved material legal proceedings which ICBC and/or its subsidiaries was/were defendant totaled RMB3,722 million. For details, please refer to the note 34(d) to the Financial Statements: Legal Proceedings. ICBC does not expect any material adverse effect on the Bank's business, financial position or operational results.

### Material Connected Transactions

During the reporting period, the Bank has not entered into any material connected transactions.

### Material Contracts and Performance of Obligations Thereunder

#### Material Trust, Sub-contract and Lease

During the reporting period, ICBC has not held on trust to a material extent or entered into any material sub-contract or lease arrangement in respect of assets of other corporations, and no other corporation has held on trust to a material extent or entered into any material sub-contract or lease arrangement in respect of the Bank's assets.

#### Material Guarantees

1. The provision of guarantees is one of the off-balance-sheet services in the ordinary course of business of ICBC. During the reporting period, ICBC did not have any material guarantees that need to be disclosed except for the financial guarantee services within the business scope as approved by the People's Bank of China.
2. Directors' Special Explanation and Independent Opinions on External Guarantee of ICBC

In accordance with CSRC's Circular Concerning Several Issues on Regulating Fund Transfers between Listed Companies and their Related Parties and External Guarantee of Listed Companies (ZH.J.F [2003] No.56) and relevant provisions of Shanghai Stock Exchange, the independent directors of ICBC reviewed the Bank's external guarantee on the principle of fairness, impartiality and objectivity, and hereby give their special explanation and opinions as follows: upon review, external guarantee provided by ICBC is dominated by letters of guarantee, and is one of the ordinary banking services within the business scope of ICBC as approved by PBOC and CBRC. As of 31 December 2006, the balance of letters of guarantee offered by the Group totaled RMB171,205 million.

ICBC has always attached great importance to the management risk arising from such business and formulated strict rules on the credit ratings of the entities to whom the guarantee was provided and on the operation and review procedures of the provision of guarantees. In our opinion, risk control of the business of guarantee provision by ICBC has been effective. ICBC will continue enhancing risk management on such service to ensure the steady improvement of ICBC's performance.

Independent Directors of ICBC **Leung Kam Chung, Antony**  
**John L. Thornton**  
**Qian Yingyi**

### Material Events Concerning Entrusting Other Persons for Cash Management or Entrusted Loans

No such matters concerning entrusting other persons for cash management or entrusted loan occurred during the reporting period.

### Commitments Made by ICBC or Its Shareholders Holding 5% Shares or Above

As of 31 December 2006, shareholders holding over 5% shares in ICBC were MOF, Huijin, Goldman Sachs, and SSF. Among them, MOF and Huijin held A shares, while Goldman Sachs and SSF held H shares.

MOF and Huijin have undertaken that within 36 months from the date on which ICBC's A shares were first listed on Shanghai Stock Exchange, they will not transfer or entrust others to manage the A shares which they directly or indirectly held in ICBC, nor will they offer such shares to ICBC for acquisition. If the A shares held by MOF and Huijin in ICBC are converted to H shares with the consent of CSRC or other securities regulatory authorities authorised by the State Council, the converted H shares will not be subject to the 36-month lock-up period. Pursuant to the provisions of the Company Law, however, the MOF and Huijin may not transfer such shares within one year after ICBC's shares were first listed on the stock exchange.

Both Goldman Sachs and SSF agreed that before the expiry of the lock-up period, they will not sell, dispose or otherwise transfer any ICBC shares they bought as strategic investors or from the exercise of anti-dilution right. For them, the lock-up period shall expire on: (1) the third anniversary after the completion of strategic investment, or (2) the second anniversary of the pricing date of the global offering, whichever is the later. Besides, both of the two investors agreed that from the expiry of the lock-up period to the third anniversary of the pricing date of the global offering, the total number of ICBC shares that they will sell, dispose or transfer will not exceed 50% of the shares that they bought as of the completion date of strategic investment and the date of exercising the anti-dilution right.

Huijin has also undertaken to ICBC that so long as Huijin continues to hold any of ICBC shares or is considered as a controlling shareholder of ICBC or a connected person of any controlling shareholder of ICBC pursuant to the laws or listing rules of China or of the place where ICBC shares are listed, it will not engage or participate in any competing commercial banking business, including but not limited to granting loans, taking deposits, providing settlement, fund custodian, bank card and currency exchange services. However, Huijin may, through its investments in other commercial banks, undertake or participate in certain competing businesses. In that connection, Huijin has undertaken that (1) it will treat its investment in commercial banks on an equal footing and will not take advantage of its status as an ICBC shareholder or take advantage of the information obtained by virtue of such status to make decisions or judgments against ICBC but beneficial to other commercial banks; and (2) it will exercise its shareholder's right in the best interest of ICBC.

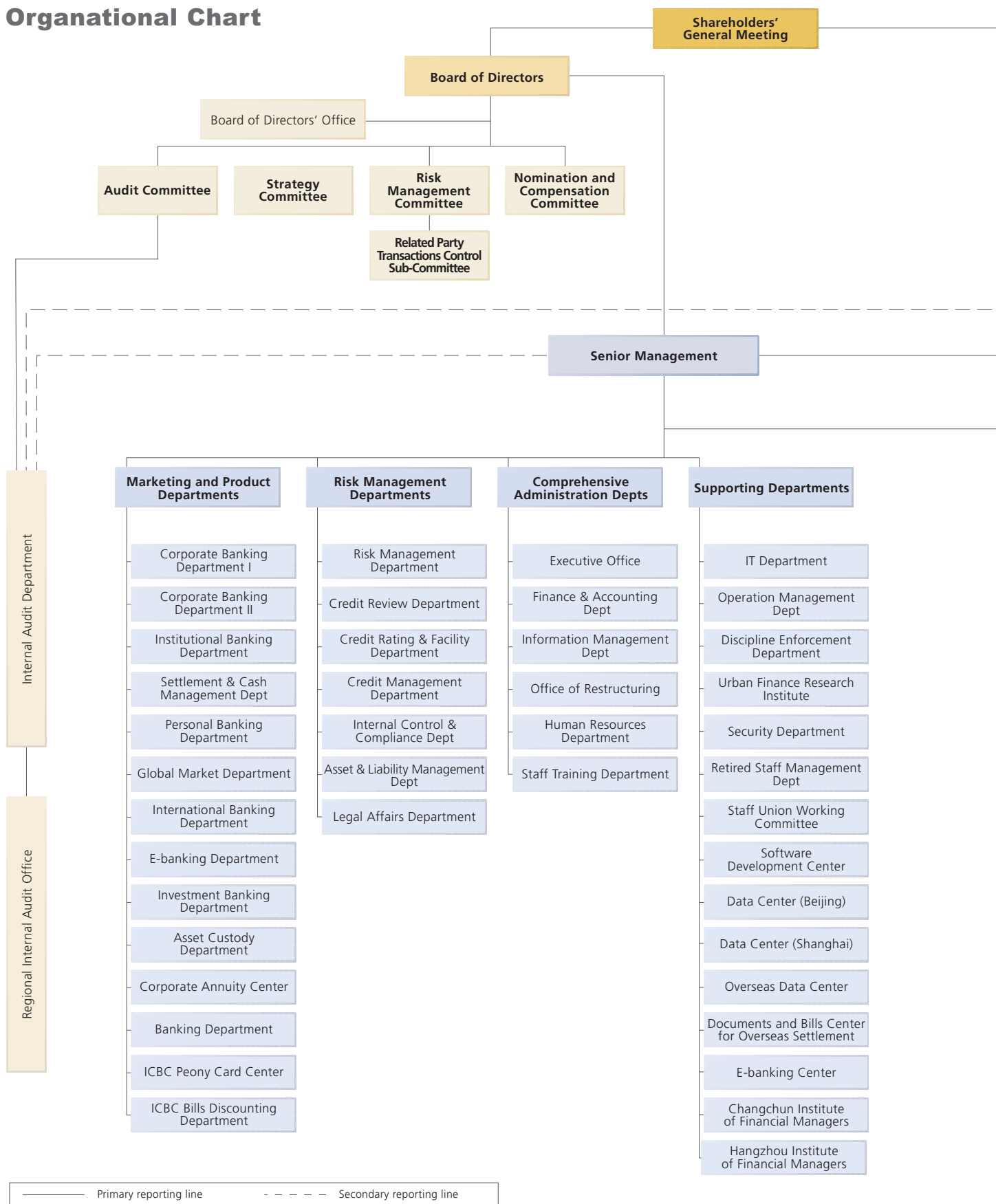
### **Investigations, Administrative Penalties, Censures by CSRC; Public Reprimand by Stock Exchanges; and Sanctions Imposed by Other Regulatory and Judicial Authorities during the Reporting Period**

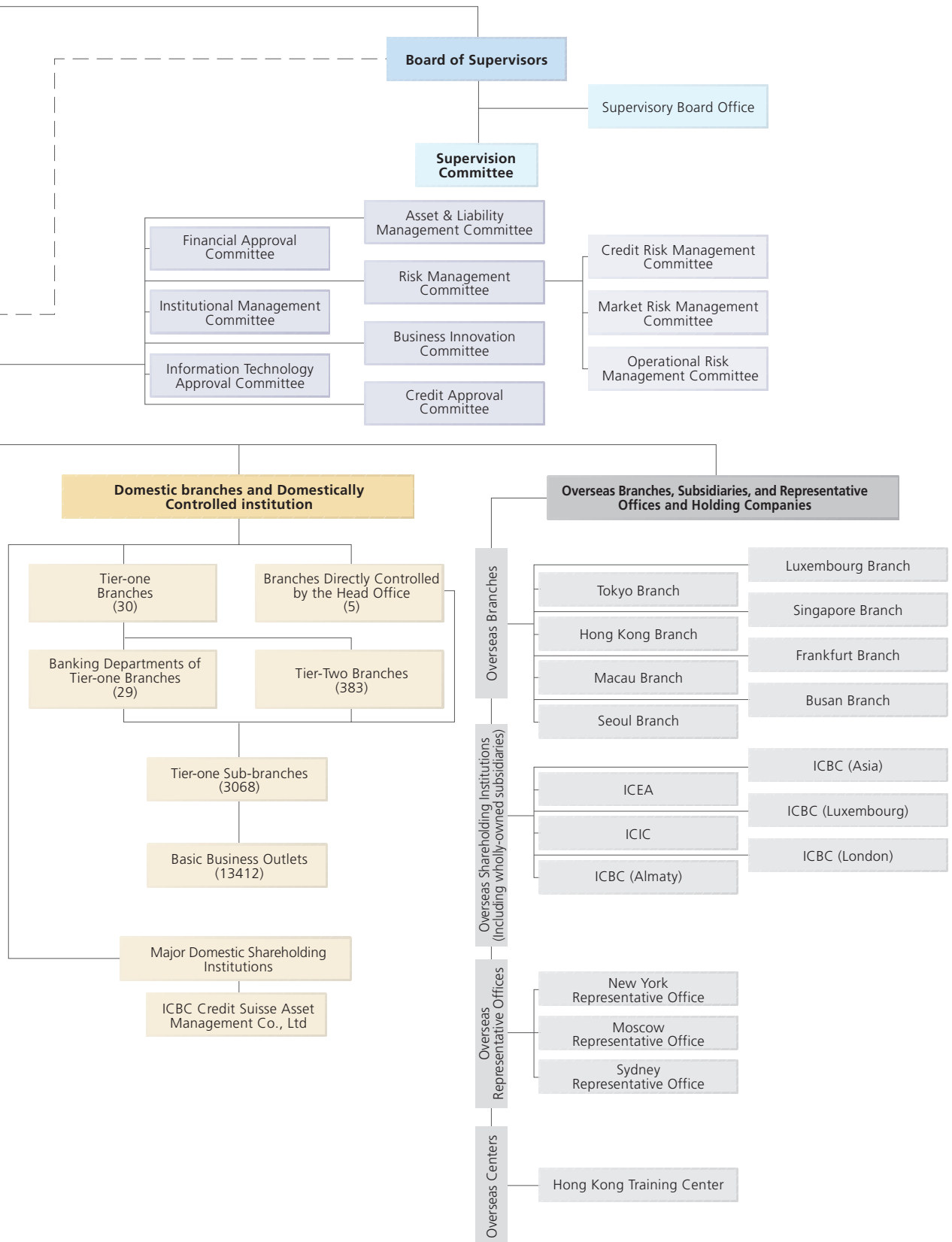
During the reporting period, ICBC was not subject to any investigation, administrative penalty or censure by CSRC, public reprimand by stock exchanges and regulatory authorities of the listing places, and sanctions imposed by other regulatory authorities that have significant influence over the operation of ICBC. During the reporting period, the Bank accepted the onsite investigations of CBRC on the Bank's market risk, credits to group customers, personal housing and auto loans, real estate loans, the deviation of loan classifications as of the end of 2005, operational risks in the first half of 2006 and the continuous follow-up on rectification of problems identified in the inspection from 2003 to 2005, and upon which CBRC did not point out any material risks and violations.

### **Other Major Events**

For information on internal control, please refer to the Corporate Governance Report: Internal Control.

# Organizational Chart







Independent Auditors' Report and Financial Statements

## Independent Auditors' Report



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

### To the shareholders of Industrial and Commercial Bank of China Limited

(Incorporated in the People's Republic of China with limited liability)

We have audited the financial statements of Industrial and Commercial Bank of China Limited (the "Bank") and its subsidiaries (collectively referred to as the "Group") set out on pages 119 to 209, which comprise the consolidated and the company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### Directors' responsibility for the financial statements

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

#### Auditors' responsibility

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

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

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

**Opinion**

In our opinion, the financial statements give a true and fair view of the financial position of the Bank and of the Group as at 31 December 2006, and of the Group's financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Ernst & Young**

Certified Public Accountants

Hong Kong  
3 April 2007

## Consolidated Income Statement

Year ended 31 December 2006  
(In RMB millions, unless otherwise stated)

	Notes	2006	2005
Interest income	5	272,941	240,202
Interest expense	5	(109,823)	(86,599)
NET INTEREST INCOME	5	163,118	153,603
Fee and commission income	6	18,529	12,376
Fee and commission expense		(2,185)	(1,830)
NET FEE AND COMMISSION INCOME		16,344	10,546
Other operating income, net	7	2,176	7,471
OPERATING INCOME		181,638	171,620
Operating expenses	8	(77,397)	(81,585)
Provisions for impairment losses on:			
Loans and advances to customers	19	(30,014)	(26,589)
Others	11	(2,175)	(425)
OPERATING PROFIT		72,052	63,021
Share of profits and losses of associates		13	5
PROFIT BEFORE TAX		72,065	63,026
Income tax expense	12	(22,185)	(25,007)
PROFIT FOR THE YEAR		49,880	38,019
Attributable to:			
Equity holders of the Bank		49,263	37,555
Minority interests		617	464
		49,880	38,019
DIVIDENDS	14		
Interim		18,593	—
Special		10,146	—
Proposed final		5,344	3,537
		34,083	3,537
Earnings per share attributable to equity holders of the Bank			
— Basic and diluted (RMB yuan)	15	0.18	0.15

## Consolidated Balance Sheet

31 December 2006  
(In RMB millions, unless otherwise stated)

	Notes	2006	2005
<b>ASSETS</b>			
Cash and balances with central banks	16	703,657	553,873
Due from banks and other financial institutions	17	206,506	132,162
Reverse repurchase agreements	18	39,218	89,235
Loans and advances to customers	19	3,533,978	3,205,861
Investment securities	20	2,860,798	2,305,689
Investments in associates	22	127	120
Property and equipment	23	87,609	92,984
Other assets	24	76,858	76,207
<b>TOTAL ASSETS</b>		<b>7,508,751</b>	<b>6,456,131</b>
<b>LIABILITIES</b>			
Due to banks and other financial institutions	25	400,318	232,910
Repurchase agreements	26	48,610	32,301
Certificates of deposits		6,458	5,704
Due to customers	27	6,351,423	5,736,866
Income tax payable		16,386	14,641
Deferred income tax liabilities	12	1,449	1,418
Debt issued	28	37,947	38,076
Other liabilities	29	175,159	134,339
<b>TOTAL LIABILITIES</b>		<b>7,037,750</b>	<b>6,196,255</b>
<b>EQUITY</b>			
Issued share capital	30	334,019	248,000
Reserves		126,286	2,559
Retained profits		6,159	5,280
Equity attributable to equity holders of the Bank		466,464	255,839
Minority interests		4,537	4,037
<b>TOTAL EQUITY</b>		<b>471,001</b>	<b>259,876</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>7,508,751</b>	<b>6,456,131</b>

**Jiang Jianqing**  
Chairman

**Yang Kaisheng**  
Vice Chairman and President

**Gu Shu**  
General Manager of Finance  
and Accounting Department

## Consolidated Statement of Changes in Equity

Year ended 31 December 2006  
(In RMB millions, unless otherwise stated)

	Attributable to equity holders of the Bank											Total equity
	Notes	Reserves						Subtotal	Retained profits	Total	Minority interests	
		Issued share capital	Capital reserve	Surplus reserves	General reserve	Investment revaluation reserve	Foreign currency translation reserve					
Balance as at 1 January 2006		248,000	(1,379)	375	1,700	2,032	(169)	2,559	5,280	255,839	4,037	259,876
Net change in the fair value of available-for-sale investments		—	—	—	—	95	—	95	—	95	248	343
Reserve realised on disposal of available-for-sale investments		—	—	—	—	15	—	15	—	15	—	15
Foreign currency translation		—	—	—	—	—	(182)	(182)	—	(182)	(105)	(287)
Total income and expense for the year recognised directly in equity		—	—	—	—	110	(182)	(72)	—	(72)	143	71
Profit for the year		—	—	—	—	—	—	—	49,263	49,263	617	49,880
Total income and expense for the year		—	—	—	—	110	(182)	(72)	49,263	49,191	760	49,951
Issue of shares	30	86,019	110,685	—	—	—	—	110,685	—	196,704	—	196,704
Share issue expenses		—	(2,994)	—	—	—	—	(2,994)	—	(2,994)	—	(2,994)
Dividend — 2005 final	14	—	—	—	—	—	—	—	(3,537)	(3,537)	—	(3,537)
Dividend — 2006 interim	14	—	—	—	—	—	—	—	(18,593)	(18,593)	—	(18,593)
Dividend — 2006 special	14	—	—	—	—	—	—	—	(10,146)	(10,146)	—	(10,146)
Appropriation to surplus reserves (i)		—	—	5,089	—	—	—	5,089	(5,089)	—	—	—
Appropriation to general reserve		—	—	—	11,019	—	—	11,019	(11,019)	—	—	—
Dividends paid to minority shareholders		—	—	—	—	—	—	—	—	—	(260)	(260)
Balance as at 31 December 2006		334,019	106,312	5,464	12,719	2,142	(351)	126,286	6,159	466,464	4,537	471,001

(i) Includes the appropriation made by subsidiaries and overseas branches in the amount of RMB14 million in aggregate.

Consolidated Statement of Changes in Equity  
Year ended 31 December 2006  
(In RMB millions, unless otherwise stated)

	Attributable to equity holders of the Bank												
	Reserves										Minority interests	Total equity	
	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
Balance as at 1 January 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 recognised on the 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	—	—	—	—	—	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	—	124,148	19,906	—	—	—	—	—	19,906	—	144,054	—	144,054
Equity contribution arising from the disposal of impaired assets	—	—	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 30)	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
Dividends paid to minority shareholders	—	—	—	—	—	—	—	—	—	—	—	(238)	(238)
Balance as at 31 December 2005	248,000	—	(1,379)	375	1,700	—	2,032	(169)	2,559	5,280	255,839	4,037	259,876

## Consolidated Cash Flow Statement

Year ended 31 December 2006  
(In RMB millions, unless otherwise stated)

	Notes	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		72,065	63,026
Adjustments for:			
Share of profits and losses of associates		(13)	(5)
Depreciation	8	9,697	9,852
Amortisation	8	1,031	712
Provisions for impairment losses on loans and advances to customers	19	30,014	26,589
Provisions for impairment losses on assets other than loans and advances to customers	11	2,175	425
Foreign exchange difference		3,413	(1,059)
Interest expense on debt issued	5	1,259	490
Accretion of impairment provision discount	5	(1,890)	(8,349)
Gain on disposal of available-for-sale securities, net	7	(113)	(384)
Loss/(gain) on trading securities, net	7	71	(27)
Loss/(gain) on financial assets and liabilities designated at fair value through profit or loss, net	7	404	(637)
Gain on derivatives and other instruments, net	7	(1,038)	(266)
Gain on disposal of property and equipment and other assets, net	7	(328)	(626)
Dividend income from unlisted investments	7	(28)	(2)
		116,719	89,739
<b>Net decrease/(increase) in operating assets:</b>			
Due from central banks		(143,369)	(54,454)
Due from banks and other financial institutions		(11,564)	4,510
Reverse repurchase agreements		(20,994)	(902)
Loans and advances to customers		(371,658)	(244,536)
Other assets		3,410	(9,464)
		(544,175)	(304,846)
<b>Net increase/(decrease) in operating liabilities:</b>			
Due to a central bank		—	(4,865)
Due to banks and other financial institutions		167,408	27,215
Repurchase agreements		16,309	5,962
Certificates of deposits		754	2,024
Due to customers		620,382	560,584
Other liabilities		39,239	(5,332)
		844,092	585,588
Net cash inflow from operating activities before tax		416,636	370,481
Income tax paid		(20,415)	(2,987)
Net cash inflow from operating activities		396,221	367,494

## Consolidated Cash Flow Statement

Year ended 31 December 2006

(In RMB millions, unless otherwise stated)

	Notes	2006	2005
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of property and equipment and other assets		(6,607)	(9,684)
Proceeds from disposal of property and equipment		1,522	5,177
Purchases of investments		(2,352,936)	(719,996)
Proceeds from sale and redemption of investments		2,014,537	327,090
Dividend received		34	2
Net cash outflow from investing activities		(343,450)	(397,411)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of shares		188,676	124,148
Share issue expenses		(2,994)	—
Capital contribution by minority shareholders		—	166
Repayment of debt issued		—	(138)
Proceeds from debt issued		—	35,000
Interest paid on debt issued		(1,234)	(490)
Dividends paid on ordinary shares		(22,130)	—
Dividends paid to minority shareholders		(260)	(238)
Net cash inflow from financing activities		162,058	158,448
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents at beginning of the year		294,424	168,019
Effect of exchange rate changes on cash and cash equivalents		(2,459)	(2,126)
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	32(a)	506,794	294,424
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES INCLUDES:</b>			
Interest received		269,630	208,975
Interest paid		(95,903)	(82,274)

## Balance Sheet

31 December 2006  
(In RMB millions, unless otherwise stated)

	Notes	2006	2005
<b>ASSETS</b>			
Cash and balances with central banks	16	703,245	553,572
Due from banks and other financial institutions	17	169,454	129,926
Reverse repurchase agreements	18	39,218	89,235
Loans and advances to customers	19	3,454,432	3,131,096
Investment securities	20	2,854,401	2,297,831
Investments in subsidiaries	21	7,260	7,112
Investment in an associate	22	74	74
Property and equipment	23	87,251	92,615
Other assets	24	73,313	73,364
<b>TOTAL ASSETS</b>		<b>7,388,648</b>	<b>6,374,825</b>
<b>LIABILITIES</b>			
Due to banks and other financial institutions	25	398,573	231,434
Repurchase agreements	26	49,119	33,109
Due to customers	27	6,251,403	5,671,854
Income tax payable		16,176	14,627
Deferred income tax liabilities	12	1,327	1,418
Debt issued	28	35,000	35,000
Other liabilities	29	172,460	132,533
<b>TOTAL LIABILITIES</b>		<b>6,924,058</b>	<b>6,119,975</b>
<b>EQUITY</b>			
Issued share capital	30	334,019	248,000
Reserves	31	124,872	1,955
Retained profits	31	5,699	4,895
<b>TOTAL EQUITY</b>		<b>464,590</b>	<b>254,850</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>7,388,648</b>	<b>6,374,825</b>

**Jiang Jianqing**  
Chairman

**Yang Kaisheng**  
Vice Chairman and President

**Gu Shu**  
General Manager of Finance  
and Accounting Department

# Notes to Financial Statements

31 December 2006  
(In RMB millions, unless otherwise stated)

## 1. CORPORATE INFORMATION

Industrial and Commercial Bank of China (“ICBC”) was a wholly-state-owned commercial bank founded on 1 January 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 28 October 2005, with the approval of the State Council of the PRC, ICBC was restructured and incorporated as a joint-stock limited company. ICBC then changed its name to Industrial and Commercial Bank of China Limited (the “Bank”). The registered office of the Bank is located at No. 55 Fuxingmennei Avenue, Xicheng District, Beijing, the PRC.

During the year, certain issued shares of the Bank have been listed on The Stock Exchange of Hong Kong Limited (“SEHK”) and the Shanghai Stock Exchange (“SSE”) respectively. Details are set out in note 30 to the financial statements.

As at 31 December 2006, the Bank had established domestic branches in 35 provinces, autonomous regions and municipalities directly under the central government of the PRC (the “Government”), and 8 overseas branches outside Mainland China. The Bank and its subsidiaries are collectively referred to as the Group. Particulars of the Bank’s principal subsidiaries are set out in note 21 to the financial statements.

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 China Banking Regulatory Commission (the “CBRC”) of the PRC, and the provision of related services by its overseas establishments as approved by the respective local regulators.

## 2.1 BASIS OF PREPARATION

### Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) and its interpretations promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, 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 explained 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. These financial statements are presented in RMB and all values are rounded to the nearest million except when otherwise indicated.

### Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries. The financial statements of subsidiaries for the purpose of preparation of these consolidated financial statements are prepared for the same reporting period as the Bank, using the consistent accounting policies.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue 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 results of that subsidiary for the part of the reporting period during which the Bank has control. All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full.

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 used its judgements and made assumptions of the effects of uncertain future events on the financial statements. The most significant use of judgements and 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 period, is described 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 reclassify 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 impairment losses on loans and advances have 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 the objective evidence for impairment exists and also significant estimates when determining the present value of the expected future cash flows.

### **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 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 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.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (1) Subsidiaries

A subsidiary is an entity whose financial and operating policies the Bank controls, directly and indirectly, so as to obtain benefits from its activities.

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.

#### (2) 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. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

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.

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.

#### (3) Foreign currency translation

The consolidated financial statements are 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 period end rates are recognised in the income statement, with the exception of differences on foreign currency borrowings that provide an effective hedge against a net investment in a foreign entity which are taken directly to equity until the disposal of the net investment, at which time they are recognised in the income statement. Tax charges and credits attributable to exchange differences on those borrowings are also recorded in equity.

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. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the rates ruling at the balance sheet date.

At each balance sheet date, the assets and liabilities of the subsidiaries and foreign branches 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. The exchange differences arising on translation are taken directly to equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

#### **(4) Financial assets**

Financial assets in the scope of International Accounting Standard (“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 are 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.

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

- it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the financial assets or financial liabilities or from recognising the gains and losses on them on different bases;

- it 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
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

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, is non-recurring and could not have been reasonably anticipated by the entity.

### **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 receivables are derecognised or impaired, as well as through the amortisation process.

Discounted bills are granted by the Group to its customers based on the bank acceptance held which has not matured. Discounted bills are carried at face value less unrealised interest income and the interest income of the discounted bills is recognised on an accrual basis.

### **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.

### **(5) 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 provision 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 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 assets 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 loan impairment 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 been 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 instrument can be objectively related to an event occurring after the impairment losses was recognised in the income statement.

### **(6) 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 3(4) are 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.

### **(7) 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.

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.

#### **(8) 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.

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 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 the 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 the 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.

## **(9) Trade date accounting**

All regular way purchases and sales of financial assets are recognised at the trade date, which is the date that the Group commits to purchase or sell 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.

## **(10) Offsetting**

Financial assets and liabilities are offset and the net amount is reported in the balance sheet if, and only if, the Group has a legally enforceable right to offset such amounts with the same counterparty and an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

### **(11) Repurchase and reverse repurchase transactions**

Assets sold under agreements to repurchase at a specified future date (“repos”) are not derecognised from the balance sheet. The corresponding cash received, including accrued interest, is recognised on the balance sheet as a “repurchase agreement”, reflecting its economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as an interest expense and is accrued over the life of the agreement using the effective interest method.

Conversely, assets purchased under agreements to resell at a specified future date (“reverse repos”) are not recognised on the balance sheet. The corresponding cash paid, including accrued interest, is recognised on the balance sheet as a “reverse repurchase agreement”. The difference between the purchase and resale prices is treated as an interest income and is accrued over the life of the agreement using the effective interest method.

### **(12) Property and equipment**

Property and equipment were stated at cost or valuation 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 items of property and equipment have 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, and the where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of the assets or as a replacement.

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. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. Revaluations are performed on items which experience significant and volatile movements in fair value.

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. 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:

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

Where parts of an item of property and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

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

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 the asset is derecognised.

### **(13) Land use rights**

Land use rights are recognised at cost, being the fair value at the time of injection from the Government 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 properties and buildings as finance leases in property and equipment.

### **(14) 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.

### **(15) 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.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Bank's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Bank at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on the Bank's reporting format determined in accordance with IAS 14 "Segment Reporting".

Where goodwill forms part of a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognised in the income statement.

### **(16) 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 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 values 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.

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 is treated as a revaluation increase. 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.

## (17) 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 which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

## (18) Operating leases

Leases where substantially all the rewards and risks 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.

## (19) 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);
- (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.

## (20) Recognition of income and expense

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 and expense

For all financial instruments measured at amortised cost and interest-bearing financial instruments classified as available-for-sale financial investments, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank

revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as an interest income or expense.

Once the recorded value of a financial assets or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

### **Fee and commission income**

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

#### **(i) Fee income from services that are provided over a certain period of time**

Fees earned from the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

#### **(ii) Fee income from providing transaction services**

Fees arising from negotiating or participating in the negotiation of a transaction for a third party such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

### **Dividend income**

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

### **Net trading income**

Results arising from trading activities include all gains and losses from changes in fair value for financial assets and financial liabilities that are held-for-trading. This includes any ineffectiveness recorded in hedging transactions.

## **(21) 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.

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

- where the deferred 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 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 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.

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

## **(22) 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 have been 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 defined contribution schemes separately administered by the local government authorities.

In addition, employees in Mainland China also participate in a contribution retirement benefit plan established by the Bank (the "Annuity Plan"). The Bank and its employees are required to contribute a certain percentage of the employees' previous year basic salaries to the Annuity Plan. The Bank pays fixed contribution into the Annuity Plan and has no obligation to pay further contribution if the Annuity Plan does not hold sufficient assets to pay all employees benefits.

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 who retired before 30 June 2005 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 cost method. The present value of such benefits was recorded as "Other liabilities" in the balance sheet. Actuarial gains and losses were recognised in the income statement in the period in which they occur.

During the year, the Group settled the supplementary retirement benefit liabilities with an equivalent amount of assets. After the settlement, the assets and liabilities were segregated into a fund (the "Fund") separately held and managed by ICBC Provident Fund Committee, which is designated to administer and manage the Fund and the payment of supplementary retirement benefits independently in the future. The Group has no future obligation on the supplementary retirement benefit liabilities.

### **Share-based payment transactions**

For the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations, eligible employees (including directors, supervisors, senior management and other key personnel of the Group) would be granted share appreciation rights, which can only be settled in cash ("cash-settled transactions").

The cost of cash-settled transactions is measured initially at fair value at the grant date. The fair value is expensed over the period until vesting with recognition of a corresponding liability. The liability is measured at each balance sheet date up to and including the settlement date with changes in fair value recognised in the income statement.

## **(23) 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 are recognised ratably over the period in which the service is provided. The risk of loss is borne by those third-party lenders.

## **(24) Financial guarantee contracts**

The Group issues financial guarantee contracts, including letters of credit, letters of guarantee and acceptance. 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, in other liabilities, being the premium received. 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 best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to a financial guarantee is taken to the income statement. The premium received is recognised in the income statement as fee and commission income and on a straight-line basis over the life of the guarantee.

## **(25) 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.

## **(26) 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 statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

## **(27) Dividends**

Dividends are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank. Dividends for the year that are approved after the balance sheet date are disclosed as an event after the balance sheet date.

#### 4. IMPACT OF ISSUED BUT NOT YET EFFECTIVE IFRSs

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

IAS 1 Amendment	Capital Disclosures
IFRS 7	Financial Instruments: Disclosures
IFRS 8	Operating Segments
IFRIC interpretation 8	Scope of IFRS 2
IFRIC interpretation 9	Reassessment of Embedded Derivatives
IFRIC interpretation 10	Interim Financial Reporting and Impairment
IFRIC interpretation 11	IFRS 2 — Group and Treasury Share Transactions

The IAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about 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 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.

IFRS 8 shall be applied for annual periods beginning on or after 1 January 2009 and will replace the existing IAS 14 "Segment Reporting". IFRS 8 requires an entity to report on the financial performance of its operating segments, based on the information used internally for the purpose of evaluating segment performance and deciding resources allocation to operating segments. Such information may be different from what is used for preparing the income statement and balance sheet. IFRS 8 therefore requires explanations of the basis on how the segment information is prepared and reconciled to the income statement and balance sheet.

IFRIC interpretation 8 is required to be applied for annual periods beginning on or after 1 May 2006. It requires IFRS 2 "Share-based Payment" to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value.

IFRIC interpretation 9 becomes effective for annual periods beginning on or after 1 June 2006. This interpretation establishes that the date to assess the existence of an embedded derivative is the date an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows.

IFRIC interpretation 10 shall be applied for annual periods beginning on or after 1 November 2006. It clarifies the prohibitions on reversal of impairment losses recognised in the previous interim period in respect of available-for-sale equity instruments, unquoted equity instruments not carried at fair value, and goodwill.

IFRIC interpretation 11 shall be applied for annual periods beginning on or after 1 March 2007. It provides guidance on distinguishing between equity-settled transactions and cash-settled transactions, and the uses of share-based payment arrangement that involves two or more entities within a group.

The Group is in the process of making an assessment of the impact of these new and revised IFRSs and interpretations upon initial application. It is expected that the adoption of the IAS 1 Amendment, IFRS 7 and IFRS 8 may result in new or amended disclosures and presentation. Other than the above, these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

## 5. NET INTEREST INCOME

	2006	2005
Interest income on:		
Loans and advances to customers	187,623	175,285
Due from central banks	10,080	8,967
Due from banks and other financial institutions	8,355	4,470
Investment securities	66,883	51,480
	272,941	240,202
Interest expense on:		
Due to customers	(100,666)	(80,753)
Due to a central bank	—	(44)
Due to banks and other financial institutions	(7,898)	(5,312)
Debt issued	(1,259)	(490)
	(109,823)	(86,599)
Net interest income	163,118	153,603

Included in interest income from loans and advances to customers for the year is an amount of RMB1,890 million (2005: RMB8,349 million) with respect to the accreted interest on impaired loans (note 19).

## 6. FEE AND COMMISSION INCOME

	2006	2005
Renminbi settlement and clearing business	4,656	2,824
Wealth management services	3,280	1,929
Bank card business	3,228	2,346
Investment banking business	3,099	2,018
Agency services	1,254	1,081
Foreign currency intermediary business	1,006	879
E-banking business	693	421
Guarantee and commitment business	433	261
Custody services	341	263
Others	539	354
	18,529	12,376

## 7. OTHER OPERATING INCOME, NET

	2006	2005
Dividend income from unlisted investments	28	2
Gain/(loss) from foreign exchange and foreign exchange products, net	(1,329)	2,255
Gain on disposal of available-for-sale securities, net	113	384
Gain/(loss) on trading securities, net	(71)	27
Gain/(loss) on financial assets and liabilities designated at fair value through profit or loss, net	(404)	637
Gain on derivatives and other instruments, net	1,038	266
Gain on disposal of property and equipment and other assets, net	328	626
Sundry bank charge income	917	1,309
Others	1,556	1,965
	2,176	7,471

## 8. OPERATING EXPENSES

	2006	2005
Staff costs:		
Salaries and bonuses	22,246	18,975
Contributions to defined contribution schemes (i)	3,591	2,413
Other staff benefits	8,923	6,602
	34,760	27,990
Supplementary retirement benefits (note 29(c))	389	4,770
Premises and equipment expenses:		
Depreciation	9,697	9,852
Minimum lease payments under operating leases in respect of land and buildings	1,836	1,895
Repairs and maintenance charges	1,513	1,256
Utility expenses	1,448	1,406
	14,494	14,409
Amortisation	1,031	712
Other administrative expenses (ii)	11,271	10,484
Business tax and surcharges	11,419	9,419
Expenses in relation to the special government bond (note 20(a)(ii))	—	5,610
Others	4,033	8,191
	77,397	81,585

(i) Contributions to defined contribution schemes mainly include contributions to the state pension and the Bank's Annuity Plan. During the year and as at the balance sheet date, the Group's forfeited contributions available to reduce its contributions to the pension schemes in future years were not material.

(ii) Included in other administrative expenses is auditors' remuneration of RMB186 million for the year (2005: RMB49 million).

## 9. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

Details of the directors' and supervisors' remuneration for the year, as disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Section 161 of the Hong Kong Companies Ordinance, are as follows:

	Group	
	2006 RMB'000	2005 RMB'000
Fees	1,528	365
Other emoluments:		
Salaries, allowances and benefits in kind	2,386	329
Discretionary bonuses	3,910	183
Contributions to defined contribution schemes	978	196
	8,802	1,073

The emoluments of the Bank's directors and supervisors for the year are as follows:

	2006					2005
	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Contributions to defined contribution schemes RMB'000	Total	Total
					RMB'000	RMB'000
<b>Executive directors</b>						
Mr. JIANG Jianqing	—	458	665	177	1,300	188
Mr. YANG Kaisheng	—	439	643	168	1,250	116
Mr. ZHANG Furong	—	406	529	145	1,080	90
Mr. NIU Ximing	—	400	545	144	1,089	91
<b>Non-executive directors</b>						
Mr. FU Zhongjun	—	—	—	—	—	—
Mr. KANG Xuejun	—	—	—	—	—	—
Mr. SONG Zhigang	—	—	—	—	—	—
Mr. WANG Wenyan	—	—	—	—	—	—
Ms. ZHAO Haiying	—	—	—	—	—	—
Mr. ZHONG Jian'an	—	—	—	—	—	—
Mr. Christopher A. COLE	—	—	—	—	—	—
<b>Independent non-executive directors</b>						
Mr. LEUNG Kam Chung, Antony	375	—	—	—	375	90
Mr. John L. THORNTON	325	—	—	—	325	78
Mr. QIAN Yingyi	335	—	—	—	335	78
<b>Supervisors</b>						
Mr. WANG Weiqiang	—	419	603	158	1,180	134
Ms. WANG Chixi	—	132	472	96	700	88
Mr. WANG Daocheng	250	—	—	—	250	62
Mr. MIAO Gengshu	230	—	—	—	230	58
Mr. ZHANG Wei	13	132	453	90	688	—
	1,528	2,386	3,910	978	8,802	1,073

The non-executive directors of the Bank received emoluments from the Bank's shareholders or its affiliates in respect of their services during the year.

The Bank was incorporated on 28 October 2005 and first appointed directors and supervisors on the same day. Accordingly, prior to that date, there were no directors' and supervisors' emoluments.

One of the Bank's executive directors, who is also a director of a subsidiary of the Bank, waived emoluments amounting to RMB170,000 for the year ended 31 December 2006 (2005: RMB176,953), which were related to discretionary bonuses for 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 year ended 31 December 2006.

During the year, 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.

## 10. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals of the Group are employees of the Bank's overseas subsidiaries. Their emoluments were determined based on the prevailing market rates in the respective countries/regions where the subsidiaries are operating. None of them are directors, supervisors or key management personnel of the Bank whose emoluments are disclosed in note 9 or 38(e) to the financial statements. Details of the emoluments in respect of the five highest paid individuals are as follows:

	Group	
	2006 RMB'000	2005 RMB'000
Salaries, allowances and benefits in kind	15,565	13,695
Discretionary bonuses	3,700	3,399
Contributions to defined contribution schemes	1,161	972
	20,426	18,066

The number of these individuals whose emoluments fell within the following bands is set out below.

	2006	2005
RMB2,500,001 to RMB3,000,000	—	2
RMB3,000,001 to RMB3,500,000	1	—
RMB3,500,001 to RMB4,000,000	2	1
RMB4,000,001 to RMB4,500,000	—	2
RMB4,500,001 to RMB5,000,000	1	—
RMB5,000,001 to RMB5,500,000	1	—
	5	5

During the year, 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 (2005: Nil).

## 11. PROVISIONS FOR IMPAIRMENT LOSSES ON ASSETS OTHER THAN LOANS AND ADVANCES TO CUSTOMERS

	2006	2005
Charge/(reversal) of provision for impairment losses on:		
Due from banks and other financial institutions	(36)	22
Investment securities	425	13
Property and equipment	608	289
Repossessed and other assets	1,178	101
	2,175	425

## 12. INCOME TAX EXPENSE

PRC income tax has been provided at the statutory rate of 33% (2005: 33%) in accordance with the relevant tax laws in Mainland China during the year. 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.

	2006	2005
Current income tax expense:		
PRC		
— Mainland China	23,010	14,563
— Hong Kong and Macau	436	220
Overseas	73	53
	23,519	14,836
Overprovision in prior years	(1,359)	—
	22,160	14,836
Deferred income tax expense	25	10,171
Total income tax expense for the year	22,185	25,007

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:

	2006	2005
Profit before tax	72,065	63,026
Tax at the PRC statutory income tax rate	23,781	20,799
Non-deductible expenses		
Staff costs	—	5,687
Write-offs	3,792	3,506
Others	1,009	745
	4,801	9,938
Non-taxable income		
Income arising from bonds exempted from income tax	(3,746)	(5,477)
Others	(1,292)	(253)
	(5,038)	(5,730)
Overprovision in prior years	(1,359)	—
Tax expense at the Group's effective income tax rate	22,185	25,007

The Bank has obtained approval from the Ministry of Finance (the "MOF") and the State Administration of Taxation of the PRC (the "SAT") of the deduction of its staff costs based on the approved amount by the MOF and the SAT, when computing the Bank's taxable income for the year. Whereas in the past, standard rates for tax deductible staff costs were adopted.

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

	Group		Bank	
	2006	2005	2006	2005
Relating to revaluation of available-for-sale investments	6	52	(122)	52

Deferred income tax expense relates to the following origination and reversal of temporary differences:

	Balance sheets				Income statement	
	Group		Bank		Group	
	2006	2005	2006	2005	2006	2005
Provisions for impairment losses on loans and advances and other assets	1,481	928	1,481	928	(553)	4,278
Provision for overdue interest receivable	—	—	—	—	—	954
Provision for housing reform losses	—	—	—	—	—	2,548
Amortisation and interest recognition for short term debt securities	—	(541)	—	(541)	(541)	(486)
Revaluation of available-for-sale investments	(1,007)	(1,001)	(879)	(1,001)	—	—
Changes in fair value of financial instruments at fair value through profit or loss	(1,776)	(1,254)	(1,776)	(1,254)	522	1,649
Others	(147)	450	(153)	450	597	1,228
Net deferred income tax liabilities	(1,449)	(1,418)	(1,327)	(1,418)		
Deferred income tax expense					25	10,171

### 13. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK

The consolidated profit attributable to equity holders of the Bank for the year ended 31 December 2006 includes a profit of RMB49,185 million (2005: RMB37,004 million) which has been dealt with in the financial statements of the Bank (note 31).

### 14. DIVIDENDS

	2006	2005
Interim	18,593	—
Special	10,146	—
Proposed final	5,344	3,537
	34,083	3,537

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

Pursuant to the resolutions passed in the extraordinary general meetings of the Bank's shareholders held on 31 July 2006 and 22 September 2006, respectively, the following dividend distributions and policies were approved:

- (i) in respect of the six months ended 30 June 2006, a dividend was distributed to the then existing shareholders in an aggregate amount of RMB18,593 million; and
- (ii) in respect of the period from 1 July 2006 to the date immediately preceding the completion of the Bank's H-share offerings on the SEHK or the A-share offering on the SSE, whichever is earlier (the "Special Dividend Period"), a dividend would be declared to the then existing shareholders, in an amount that is based on the distributable profits (after appropriations to the statutory surplus reserve and general reserve) of the Bank for the Special Dividend Period, as determined through a special audit of the Bank's financial statements prepared under the generally accepted accounting principles in the PRC or IFRSs, whichever is lower (the "Special Dividend"). The Special Dividend thus determined amounted to RMB10,146 million (approximately RMB0.035 per share) and has been accrued in the financial statements for the year ended 31 December 2006.

The Board of Directors' meeting was held on 3 April 2007, and a final dividend of approximately RMB5,344 million, equivalent to RMB0.016 per share, was proposed, which is subject to the approval of the Bank's shareholders at the forthcoming annual general meeting. The dividend was not recognised as a liability as at 31 December 2006.

## 15. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK

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

	2006	2005
Earnings:		
Profit for the year attributable to equity holders of the Bank	49,263	37,555
Shares:		
Weighted average number of shares in issue or deemed to be in issue (million)	280,177	248,000
Earnings per share (RMB yuan)	0.18	0.15

Basic earnings per share for the year ended 31 December 2006 is computed based on the profit for the year attributable to equity holders of the Bank, and the weighted average number of shares in issue during the year.

On 28 October 2005, with the approval of the State Council of the PRC, 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 earnings per share for the year ended 31 December 2005 has been computed by dividing the profit for the year attributable to equity holders of the Bank by 248,000 million shares as if these shares had been in issue since 1 January 2005.

There was no difference between the basic and diluted earnings per share as there were no dilutive events existed during the years ended 31 December 2005 and 2006.

## 16. CASH AND BALANCES WITH CENTRAL BANKS

	Group		Bank	
	2006	2005	2006	2005
Cash on hand	31,446	30,085	31,213	29,905
Balances with central banks other than restricted deposits	74,704	69,650	74,532	69,530
Unrestricted cash and balances with central banks	106,150	99,735	105,745	99,435
Mandatory reserve deposits with central banks	547,802	414,924	547,795	414,923
Other restricted deposits with central banks	49,705	39,214	49,705	39,214
Restricted balances with central banks	597,507	454,138	597,500	454,137
	703,657	553,873	703,245	553,572

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

## 17. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group		Bank	
	2006	2005	2006	2005
Nostro accounts:				
Banks and other financial institutions operating in Mainland China	6,227	5,891	5,789	5,886
Banks operating outside Mainland China	9,441	10,568	8,424	10,237
	15,668	16,459	14,213	16,123
Allowance for impairment losses	(31)	(28)	(31)	(28)
	15,637	16,431	14,182	16,095
Placements with banks and other financial institutions:				
Banks operating in Mainland China	21,481	8,842	20,349	8,802
Other financial institutions operating in Mainland China	2,778	1,828	2,778	1,828
Banks operating outside Mainland China	166,755	105,246	132,290	103,386
	191,014	115,916	155,417	114,016
Allowance for impairment losses	(145)	(185)	(145)	(185)
	190,869	115,731	155,272	113,831
	206,506	132,162	169,454	129,926

Included in nostro accounts and placements with banks and other financial institutions as at 31 December 2006 are balances with original maturity of three months or less in the amount of RMB7,547 million (2005: RMB8,095 million) and RMB151,372 million (2005: RMB88,080 million), respectively, which have been included in cash and cash equivalents in the consolidated cash flow statement (note 32(a)).

## 18. REVERSE REPURCHASE AGREEMENTS

	Group and Bank	
	2006	2005
Analysed by counterparty:		
Banks	13,779	76,804
Other financial institutions	25,439	12,431
	39,218	89,235
Analysed by collateral:		
Securities	6,418	82,164
Bills	9,989	5,994
Loans	22,811	1,077
	39,218	89,235

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 as at 31 December 2006 amounted to RMB1,989 million (2005: RMB565 million).

As at 31 December 2006, included in reverse repurchase agreements are balances with original maturity of three months or less in the amount of RMB10,291 million (2005: RMB81,302 million), which have been included in cash and cash equivalents in the consolidated cash flow statement (note 32(a)).

## 19. LOANS AND ADVANCES TO CUSTOMERS

	Group		Bank	
	2006	2005	2006	2005
Corporate loans	2,630,916	2,369,411	2,562,708	2,306,434
Personal loans	587,893	527,361	576,155	515,113
Discounted bills	412,362	392,781	412,313	392,717
	3,631,171	3,289,553	3,551,176	3,214,264
Allowance for impairment losses	(97,193)	(83,692)	(96,744)	(83,168)
	3,533,978	3,205,861	3,454,432	3,131,096

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

	Group		Bank	
	2006	2005	2006	2005
State-wholly-owned enterprises (i)	648,883	595,685	648,883	595,685
State-controlled enterprises (i)	672,586	633,459	672,586	633,459
State-invested enterprises (i)	73,943	68,654	73,943	68,654
Joint-stock enterprises	348,304	289,616	348,304	289,616
Private enterprises	354,173	272,538	354,173	272,538
Foreign invested and foreign joint venture enterprises	257,437	229,133	257,437	229,133
Others (ii)	275,590	280,326	207,382	217,349
<b>Total corporate loans</b>	<b>2,630,916</b>	<b>2,369,411</b>	<b>2,562,708</b>	<b>2,306,434</b>

- (i) Included in identified impaired loans and advances of the Group and of the Bank are amounts of RMB52,745 million (2005: RMB72,045 million) relating to the advances to state-owned enterprises including state-wholly-owned enterprises, state-controlled enterprises and state-invested enterprises
- (ii) The balance included corporate loans granted to borrowers located outside Mainland China.

Movements of allowance for impairment losses during the year are as follows:

	Group		Bank	
	2006	2005	2006	2005
At beginning of the year	83,692	598,557	83,168	597,646
Charge for the year	30,014	26,589	29,892	26,809
Accreted interest on impaired loans	(1,890)	(8,349)	(1,880)	(8,339)
Write-offs	(11,144)	(27,547)	(10,957)	(27,390)
Transfer out (i)	(3,479)	(2,468)	(3,479)	(2,468)
Reversal arising from restructuring (ii)	—	(503,090)	—	(503,090)
<b>At end of the year</b>	<b>97,193</b>	<b>83,692</b>	<b>96,744</b>	<b>83,168</b>

- (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 of the Bank, the allowance for impairment losses amounting to RMB503,090 million previously made against these impaired loans and advances was reversed and credited to the capital reserve during the year ended 31 December 2005 as a capital contribution.

	Group		Bank	
	2006	2005	2006	2005
Loans and advances for which allowance for impairment losses is:				
Individually assessed	128,447	143,506	127,538	142,587
Collectively assessed	3,502,724	3,146,047	3,423,638	3,071,677
	3,631,171	3,289,553	3,551,176	3,214,264
Allowance for impairment losses:				
Individually assessed	56,991	49,396	56,785	49,095
Collectively assessed	40,202	34,296	39,959	34,073
	97,193	83,692	96,744	83,168
Net loans and advances for which allowance for impairment losses is:				
Individually assessed	71,456	94,110	70,753	93,492
Collectively assessed	3,462,522	3,111,751	3,383,679	3,037,604
	3,533,978	3,205,861	3,454,432	3,131,096
Identified impaired loans and advances (i)	137,745	154,417	136,836	153,498
Percentage of impaired loans and advances	3.79%	4.69%	3.85%	4.78%

- (i) 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.

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

	Group		Bank	
	2006	2005	2006	2005
State-wholly-owned enterprises	13,955	17,072	13,955	17,072
State-controlled enterprises	10,060	6,465	10,060	6,465
State-invested enterprises	3,387	2,333	3,387	2,333
Joint-stock enterprises	7,520	7,333	7,520	7,333
Private enterprises	9,841	6,483	9,841	6,483
Foreign invested and foreign joint venture enterprises	5,648	3,466	5,648	3,466
Others	6,580	6,244	6,374	5,943
Total individually assessed allowance for impairment losses	56,991	49,396	56,785	49,095

## 20. INVESTMENT SECURITIES

	Notes	Group		Bank	
		2006	2005	2006	2005
Receivables	(a)	1,106,163	1,074,461	1,106,163	1,074,461
Held-to-maturity debt securities	(b)	1,228,937	882,704	1,236,211	887,677
Available-for-sale investments	(c)	504,542	330,183	492,639	319,111
Investments at fair value through profit or loss	(d)	21,156	18,341	19,388	16,582
		2,860,798	2,305,689	2,854,401	2,297,831

### (a) Receivables

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

	Group and Bank	
	2006	2005
Huarong bonds (i)	312,996	312,996
Special government bond (ii)	85,000	85,000
MOF receivable (iii)	226,378	246,000
Special PBOC bills (iv)	434,790	430,465
Policy bank bonds (v)	46,999	—
	1,106,163	1,074,461

Notes:

- (i) Huarong bonds are a series of long term bonds bilaterally issued to the Bank by China Huarong Asset Management Corporation ("Huarong") in 2000 and 2001, with an aggregate amount of RMB312,996 million. 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. Should Huarong be unable to make full payment of the bond interest, the MOF will provide funding in support of the payment.
- (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 to the Government that equals to the interest income arising from the bond on an annual basis. Such interest income and expense were offset and no cash settlement was involved. With effect from 1 December 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) MOF receivable represents the receivable arising from the disposal of certain impaired assets to Huarong in 2005. The amount is repayable by 2010 and bears interest at a fixed rate of 3% per annum. Repayment of principal from the MOF during the year amounted to RMB19,622 million.
- (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, which will mature in June 2010 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; and
  - 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.

(v) Policy bank bonds

The balance represents bonds acquired with fixed or determinable payments that are not quoted in an active market.

**(b) Held-to-maturity debt securities**

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

	Group		Bank	
	2006	2005	2006	2005
Governments and central banks	847,186	592,134	846,985	591,942
Policy banks	308,649	246,306	308,649	246,306
Public sector entities	18,663	5,223	18,482	4,959
Banks and other financial institutions	42,675	29,361	51,012	35,714
Corporate entities	11,803	9,917	11,122	8,993
	1,228,976	882,941	1,236,250	887,914
Allowance for impairment losses	(39)	(237)	(39)	(237)
	1,228,937	882,704	1,236,211	887,677

	Group		Bank	
	2006	2005	2006	2005
Analysed into:				
Listed in Hong Kong	496	1,560	496	1,404
Listed outside Hong Kong	146,764	88,082	146,060	87,062
Unlisted	1,081,677	793,062	1,089,655	799,211
	1,228,937	882,704	1,236,211	887,677
Market value of listed securities	148,354	91,044	147,648	90,168

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

Available-for-sale investments comprise the following:

	Group		Bank	
	2006	2005	2006	2005
Debt securities, at fair value:				
Governments and central banks	260,383	212,055	259,976	212,055
Policy banks	70,084	55,765	70,061	55,765
Public sector entities	61,370	588	60,603	—
Banks and other financial institutions	77,031	45,922	72,879	42,560
Corporate entities	30,240	10,549	24,745	4,117
	499,108	324,879	488,264	314,497
Equity investments:				
At fair value	1,325	761	372	181
At cost (i):				
Debt for equity swaps (ii)	4,236	4,236	4,236	4,236
Others	340	347	234	237
	5,901	5,344	4,842	4,654
Allowance for impairment losses of equity investments	(467)	(40)	(467)	(40)
	5,434	5,304	4,375	4,614
	504,542	330,183	492,639	319,111
Debt securities analysed into:				
Listed in Hong Kong	1,147	2,360	506	1,745
Listed outside Hong Kong	34,953	22,563	30,792	17,541
Unlisted	463,008	299,956	456,966	295,211
	499,108	324,879	488,264	314,497
Equity investments analysed into:				
Listed in Hong Kong	996	437	—	4
Listed outside Hong Kong	329	—	372	—
Unlisted	4,109	4,867	4,003	4,610
	5,434	5,304	4,375	4,614
Market value of listed securities:				
Debt securities	36,100	24,923	31,298	19,286
Equity investments	1,325	437	372	4
	37,425	25,360	31,670	19,290

- (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 debt for equity swap arrangements set by the 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.

**(d) Investments at fair value through profit or loss**

Investments at fair value through profit or loss are stated at fair value and comprise the following:

	Group		Bank	
	2006	2005	2006	2005
Debt securities:				
Governments and central banks	2,424	11,467	2,215	11,246
Policy banks	2,379	4,279	2,379	4,279
Public sector entities	98	509	—	300
Banks and other financial institutions	908	1,259	423	757
Corporate entities	15,304	827	14,371	—
	21,113	18,341	19,388	16,582
Equity investments	43	—	—	—
	21,156	18,341	19,388	16,582
Debt securities analysed into:				
Listed in Hong Kong	310	90	234	—
Listed outside Hong Kong	927	1,379	173	370
Unlisted	19,876	16,872	18,981	16,212
	21,113	18,341	19,388	16,582
Equity investments analysed into:				
Listed in Hong Kong	43	—	—	—

At 31 December 2006, included in investments at fair value through profit or loss are debt securities amounting to RMB1,768 million (2005: RMB1,759 million) which are financial assets designated at fair value through profit or loss upon initial recognition.

**21. INVESTMENTS IN SUBSIDIARIES**

	Bank	
	2006	2005
Unlisted investments, at cost	1,611	1,463
Shares listed in Hong Kong, at cost	5,649	5,649
	7,260	7,112
Market value of the Bank's investments in a subsidiary whose shares are listed in Hong Kong	10,083	6,621

Particulars of the Bank's principal subsidiaries as at the balance sheet date are as follows:

Name	Percentage of equity interests directly attributable to the Bank		Nominal value of issued share/ paid-up capital	Place of incorporation/ registration and operations	Principal activities
	2006 %	2005 %			
Industrial and Commercial Bank of China (Asia) Limited ("ICBC (Asia)")	59.72	59.72	HK\$2,242.52 million	Hong Kong	Commercial banking
Industrial and Commercial International Capital Limited ("ICIC")	100.00	100.00	HK\$280 million	Hong Kong	Commercial banking
ICEA Finance Holdings Limited ("ICEA")	75.00	75.00	US\$20 million	British Virgin Islands and Hong Kong	Investment banking
ICBC (London) Limited ("ICBC (London)")	100.00	100.00	US\$100 million	London, United Kingdom	Commercial banking
JSC Industrial and Commercial Bank of China ("ICBC (Almaty)")	100.00	100.00	US\$10 million	Almaty, Kazakhstan	Commercial banking
ICBC Credit Suisse Asset Management Co., Ltd. ("ICBC Credit Suisse Asset Management") (Note)	55.00	55.00	RMB200 million	Beijing, the PRC	Fund management
ICBC (Luxembourg) S.A. ("ICBC (Luxembourg) ")	100.00	N/A	US\$18.50 million	Luxembourg	Commercial banking

Note: ICBC Credit Suisse Asset Management is registered as a sino-foreign equity joint venture enterprise under PRC Law.

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

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

	2006	2005
Due from subsidiaries	13,174	22,286
Due to subsidiaries	(2,673)	(5,522)
Investments	11,524	9,677

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

## 22. INVESTMENTS IN ASSOCIATES

	Group		Bank	
	2006	2005	2006	2005
Share of net assets	127	120	—	—
Unlisted investment, at cost	—	—	74	74
	127	120	74	74

The following table illustrates the summarised financial information of the Group's associates extracted from their financial statements:

	2006	2005
Assets	2,558	1,920
Liabilities	(1,976)	(1,373)
Net assets	582	547
Revenue	201	123
Profit for the year	60	25

Particulars of the Group's associates at the balance sheet date are as follows:

Name	Percentage of equity interest attributable to the Group		Place of incorporation/ registration	Principal activities
	2006 %	2005 %		
Directly held by the Bank:				
Qingdao International Bank	20.83	20.83	Qingdao, the PRC	Commercial banking
Indirectly held by the Bank:				
China Ping An Insurance (Hong Kong) Company Limited (i)	14.93	14.93	Hong Kong	General insurance

- (i) The shareholding of a 25% equity interest in this associate is held through a non-wholly-owned subsidiary, ICBC (Asia). The percentage of ownership interest disclosed represents the effective percentage held by the Group.

## 23. PROPERTY AND EQUIPMENT

### Group

	Properties and buildings	Construction in progress	Leasehold improvements	Office equipment and computers	Motor vehicles	Total
Cost or valuation:						
At 1 January 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 31 December 2005 and 1 January 2006	78,284	2,850	1,533	14,420	1,907	98,994
Additions	927	2,022	332	2,850	80	6,211
Transfers	1,188	(1,964)	50	626	13	(87)
Disposals	(1,161)	—	(443)	(270)	(116)	(1,990)
At 31 December 2006	79,238	2,908	1,472	17,626	1,884	103,128
Accumulated depreciation and impairment:						
At 1 January 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 31 December 2005 and 1 January 2006	2,017	185	752	2,552	504	6,010
Depreciation charge for the year	3,438	—	285	5,310	664	9,697
Impairment losses	431	160	—	11	6	608
Disposals	(124)	—	(431)	(156)	(85)	(796)
At 31 December 2006	5,762	345	606	7,717	1,089	15,519
Net carrying amount:						
At 31 December 2005	76,267	2,665	781	11,868	1,403	92,984
At 31 December 2006	73,476	2,563	866	9,909	795	87,609
Analysis of cost or valuation:						
At 31 December 2005						
At cost	2,668	1,654	1,533	2,740	124	8,719
At 30 June 2005 valuation	75,616	1,196	—	11,680	1,783	90,275
	78,284	2,850	1,533	14,420	1,907	98,994
At 31 December 2006						
At cost	4,783	2,908	1,472	6,216	217	15,596
At 30 June 2005 valuation	74,455	—	—	11,410	1,667	87,532
	79,238	2,908	1,472	17,626	1,884	103,128

## Bank

	Properties and buildings	Construction in progress	Leasehold improvements	Office equipment and computers	Motor vehicles	Total
Cost or valuation:						
At 1 January 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 31 December 2005 and 1 January 2006	78,010	2,850	1,377	14,082	1,896	98,215
Additions	927	2,022	280	2,818	74	6,121
Transfers	1,188	(1,964)	50	626	13	(87)
Disposals	(1,127)	—	(421)	(252)	(116)	(1,916)
At 31 December 2006	78,998	2,908	1,286	17,274	1,867	102,333
Accumulated depreciation and impairment:						
At 1 January 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 31 December 2005 and 1 January 2006	1,968	185	658	2,291	498	5,600
Depreciation charge for the year	3,430	—	266	5,294	658	9,648
Impairment losses	431	160	—	11	6	608
Disposals	(122)	—	(415)	(152)	(85)	(774)
At 31 December 2006	5,707	345	509	7,444	1,077	15,082
Net carrying amount:						
At 31 December 2005	76,042	2,665	719	11,791	1,398	92,615
At 31 December 2006	73,291	2,563	777	9,830	790	87,251
Analysis of cost or valuation:						
At 31 December 2005						
At cost	2,394	1,654	1,377	2,402	113	7,940
At 30 June 2005 valuation	75,616	1,196	—	11,680	1,783	90,275
	78,010	2,850	1,377	14,082	1,896	98,215
At 31 December 2006						
At cost	4,543	2,908	1,286	5,864	200	14,801
At 30 June 2005 valuation	74,455	—	—	11,410	1,667	87,532
	78,998	2,908	1,286	17,274	1,867	102,333

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

	Group		Bank	
	2006	2005	2006	2005
Long term leases (over 50 years)				
Held in the PRC (other than Hong Kong)	7,070	6,346	7,070	6,341
Held in Hong Kong	167	189	—	—
Held in overseas	50	48	49	47
	7,287	6,583	7,119	6,388
Medium term leases (10 to 50 years)				
Held in the PRC (other than Hong Kong)	64,001	67,210	64,001	67,199
Held in Hong Kong	280	285	263	267
	64,281	67,495	64,264	67,466
Short term leases (less than 10 years)				
Held in the PRC (other than Hong Kong)	1,908	2,189	1,908	2,188
	73,476	76,267	73,291	76,042

In accordance with the relevant rules and regulations, subsequent to the transformation of ICBC into a joint-stock company, the titleship 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.

Had the property and equipment (other than leasehold improvements) been measured using the cost method, the carrying amounts would have been as follows:

31 December 2006	Cost	Accumulated depreciation and impairment	Net carrying amount
<b>Group</b>			
Properties and buildings	78,986	(24,191)	54,795
Construction in progress	2,908	(345)	2,563
Office equipment and computers	34,064	(24,373)	9,691
Motor vehicles	5,377	(4,362)	1,015
	121,335	(53,271)	68,064

31 December 2006	Cost	Accumulated depreciation and impairment	Net carrying amount
<b>Bank</b>			
Properties and buildings	78,746	(24,135)	54,611
Construction in progress	2,908	(345)	2,563
Office equipment and computers	33,711	(24,100)	9,611
Motor vehicles	5,360	(4,350)	1,010
	120,725	(52,930)	67,795

31 December 2005	Accumulated		Net carrying amount
	Cost	depreciation and impairment	
<b>Group</b>			
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
	116,631	(46,034)	70,597

31 December 2005	Accumulated		Net carrying amount
	Cost	depreciation and impairment	
<b>Bank</b>			
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
	116,008	(45,718)	70,290

No revaluation was performed as at 31 December 2006 as the directors are of the view that the property and equipment of the Group have not experienced any significant and volatile movements in fair value and their carrying amounts did not differ materially from those which would have been determined using the fair value at the balance sheet date.

## 24. OTHER ASSETS

	Group		Bank	
	2006	2005	2006	2005
Interest receivable	26,109	24,993	25,225	24,295
Repossessed assets (i)	4,563	6,395	4,563	6,395
Positive fair value of derivative financial instruments (note 33)	10,539	9,957	10,364	9,154
Land use rights (ii)	19,159	19,657	19,159	19,657
Settlement accounts	3,855	2,817	2,726	2,329
Others	12,633	12,388	11,276	11,534
	76,858	76,207	73,313	73,364

(i) Repossessed assets are analysed as follows:

	Group and Bank	
	2006	2005
Cost	6,897	8,942
Allowance for impairment losses	(2,334)	(2,547)
	4,563	6,395

(ii) Land use rights represent the amount of land use rights injected by the Government in 2005 through capital contribution less accumulated amortisation.

## 25. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group		Bank	
	2006	2005	2006	2005
Money market takings	32,824	31,360	30,475	29,709
Deposits	367,494	201,550	368,098	201,725
	400,318	232,910	398,573	231,434
Analysed by legal form of counterparty:				
Policy banks	209	503	209	503
State-owned banks	3,615	12,493	3,458	10,666
Joint-stock banks	16,930	12,428	16,369	10,699
Other financial institutions	329,565	199,162	326,760	201,451
Others	49,999	8,324	51,777	8,115
	400,318	232,910	398,573	231,434

## 26. REPURCHASE AGREEMENTS

	Group		Bank	
	2006	2005	2006	2005
Analysed by counterparty:				
Banks	12,992	26,913	13,501	27,721
Other financial institutions	35,618	5,388	35,618	5,388
	48,610	32,301	49,119	33,109
Analysed by collateral:				
Securities	47,182	28,556	47,182	28,556
Bills	493	790	493	790
Loans	935	2,955	1,444	3,763
	48,610	32,301	49,119	33,109

## 27. DUE TO CUSTOMERS

	Group		Bank	
	2006	2005	2006	2005
Demand deposits:				
Corporate customers	1,985,647	1,787,336	1,975,491	1,779,074
Personal customers	1,105,575	1,012,876	1,099,121	1,003,655
Others	93,686	77,944	93,686	77,941
Time deposits:				
Corporate customers	934,513	754,968	866,454	707,981
Personal customers	2,232,002	2,103,742	2,216,651	2,103,203
	6,351,423	5,736,866	6,251,403	5,671,854

At 31 December 2006, the Group's amounts due to customers included structured deposits amounting to RMB25,033 million (2005: RMB33,590 million) 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 RMB258 million (2005: RMB629 million). The amounts of changes in the fair value of the financial liabilities that are attributable to changes in credit risk are considered not significant during the years presented and cumulatively as at 31 December 2005 and 2006.

## 28. DEBT ISSUED

	Notes	Group		Bank	
		2006	2005	2006	2005
Notes payable	(a)	2,947	3,076	—	—
Subordinated bonds issued	(b)	35,000	35,000	35,000	35,000
		37,947	38,076	35,000	35,000

Notes:

- (a) The notes were issued in September 2004 by ICBCA (C.I.) Limited, an indirectly-held subsidiary of the Bank, at a coupon rate of 4.125% per annum and maturing on 16 September 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 upon maturity to the holders of these notes amounted to RMB114 million as at 31 December 2006 (2005: RMB128 million). The amounts of changes in the fair value of the financial liabilities that are attributable to changes in credit risk are considered not significant during the years presented and cumulatively as at 31 December 2005 and 2006.

- (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:
- (i) 10-year fixed rate subordinated bonds in the amount of RMB13,000 million in aggregate with maturity due 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 29 August 2010. If the Bank does not exercise this option, the annual coupon rate will increase by 3% thereafter;
  - (ii) 15-year fixed rate subordinated bonds in the amount of RMB13,000 million in aggregate with maturity due 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 6 September 2015. If the Bank does not exercise this option, the annual coupon rate will increase by 3% thereafter; and

- (iii) 10-year floating rate subordinated bonds in the amount of RMB9,000 million in aggregate with maturity due in 2015, bearing a coupon rate which is a specific base rate plus an interest margin of 1.05% per annum. Such specific base rate is determined based on the weighted average of the 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 14 September 2010. If the Bank does not exercise this option, the interest margin of the bonds will increase by 1% thereafter.

## 29. OTHER LIABILITIES

	Group		Bank	
	2006	2005	2006	2005
Interest payable	50,863	38,177	50,114	37,610
Supplementary retirement benefits	—	29,921	—	29,921
Settlement accounts	26,538	24,276	25,400	24,014
Salaries and welfare payables	6,677	5,126	6,525	5,049
Sundry tax payables	5,618	4,595	5,612	4,592
Bank drafts	4,856	4,026	4,811	3,989
Negative fair value of derivative financial instruments (note 33)	2,613	3,530	2,382	2,729
Payables for bonds purchased	25,870	2,346	25,870	2,346
Dividend payable	10,146	—	10,146	—
Payables to the MOF and Central SAFE Investments Limited (“Huijin”) (i)	24,448	8,028	24,448	8,028
Others	17,530	14,314	17,152	14,255
	175,159	134,339	172,460	132,533

- (i) The balance as at 31 December 2005 arose from the restructuring of the Bank. The amount was capitalised as equity in 2006 (note 30(i) and (ii)).

The balance as at 31 December 2006 related to the sale of shares held by MOF and Huijin through the Bank’s H-share offering, that remained payable (after deducting related share issue expenses) to them at year end (note 38).

### Supplementary retirement benefits

The Group provided supplementary retirement benefits, which included supplementary pension and supplementary medical benefits, for its domestic retirees who retired before 30 June 2005. The amounts recognised in the balance sheet represented the present value of unfunded obligations. The Group’s obligations in respect of the supplementary retirement benefits at 31 December 2005 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.

During the year, the Group settled the supplementary retirement benefits with an equivalent amount of assets. Subsequent to the settlement, the related assets and liabilities were segregated into a fund (the “Fund”) separately held and managed by ICBC Provident Fund Committee, which is designated to administer and manage the Fund and the payment of supplementary retirement benefits independently in the future. The Group has no further obligation on the supplementary retirement benefits.

The components of net benefit expense recognised in the income statement and the amounts recognised in the balance sheet are summarised below.

(a) Amount recognised at the balance sheet date:

	Group and Bank	
	2006	2005
Unfunded liabilities	—	29,921

(b) Movements of net benefits liabilities recognised in the balance sheet are as follows:

	Group and Bank	
	2006	2005
Net liabilities at beginning of the year	29,921	27,261
Benefit paid during the year	(662)	(2,110)
Net expense recognised in the income statement	389	4,770
Settlement of supplementary retirement benefits	(29,648)	—
Net liabilities at end of the year	—	29,921

(c) Supplementary retirement benefits recognised in the income statement:

	Group and Bank	
	2006	2005
Interest cost recognised during the year	505	1,245
Actuarial losses/(gains) recognised during the year	(116)	3,525
Supplementary retirement benefits recognised in the income statement (note 8)	389	4,770

(d) Principal actuarial assumptions

	Group and Bank	
	2006	2005
Discount rate	N/A	3.50%
Healthcare cost increase rate	N/A	8.00%
Expected annual future benefits increase for beneficiaries of deceased employees	N/A	4.50%
Average expected future lifetime of current retirees	N/A	15.4 years

Due to the settlement of the supplementary retirement benefits during the year, no actuarial valuation was performed at year end.

## 30. SHARE CAPITAL

### Shares

	2006		2005	
	Number of shares (millions)	Nominal value	Number of shares (millions)	Nominal value
Registered, issued and fully paid:				
State-owned shares of RMB1 each	—	—	248,000	248,000
H-shares of RMB1 each	83,057	83,057	—	—
A-shares of RMB1 each	250,962	250,962	—	—
	334,019	334,019	248,000	248,000

A summary of the movements in the Bank's issued share capital during the year is as follows:

	Notes	Issued share capital (in millions share)				
		State-owned shares	Foreign legal person shares	H-shares	A-shares	Total
At 1 January 2006	(i)	248,000	—	—	—	248,000
Issue of new shares	(ii)	14,324	24,185	—	—	38,509
State-owned shares transferred to the National Council for Social Security Fund (the "SSF")	(iii)	(4,070)	—	4,070	—	—
H-share offering	(iv)	(8,140)	—	40,700	—	32,560
A-share offering	(v)	—	—	—	14,950	14,950
Conversion of shares	(vi)	(250,114)	(24,185)	38,287	236,012	—
At 31 December 2006		—	—	83,057	250,962	334,019

Notes:

- (i) Prior to the restructuring of the Bank in 2005, the Government injected cash amounting US\$15,000 million into ICBC in April 2005 as capital through Huijin, under the direction of the State Council. As such, ICBC's paid-up capital increased from RMB160,669 million as at 1 January 2005 to RMB284,817 million.

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 28 October 2005. The paid-up capital, reserves and accumulated losses of ICBC, after taking into account the surpluses arising from the asset and liability revaluation exercise, were converted into issued share capital of the joint-stock limited company upon the Bank's 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 then net asset value of ICBC in the amount of RMB256,028 million (represented by paid-up capital of RMB284,817 million and reserves of RMB628,727 million, net of accumulated losses of RMB657,516 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 as of 31 December 2005 (note 29).

## Notes to Financial Statements

31 December 2006

(In RMB millions, unless otherwise stated)

(ii) In April 2006, The Goldman Sachs Group Inc. ("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 (a total of 24,185 million shares) in the Bank for cash considerations of US\$2,582 million, Euro825 million and US\$200 million, respectively, which approximated to RMB30,438 million in aggregate.

In June 2006, the SSF subscribed for 14,324 million shares in the Bank 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 29).

(iii) In accordance with relevant PRC regulations regarding the disposal of state-owned shares, the MOF, Huijin and the SSF transferred to the SSF, in proportion to their respective holdings in the Bank, such number of shares in aggregate equivalent to 10% of the total number of shares offered pursuant to the Bank's H-share offering. These shares were converted into H-shares on an one-for-one basis, as approved by the China Securities Regulatory Commission ("CSRC") on 19 September 2006.

(iv) In connection with the H-share offering of the Bank during the year, 40,700 million H-shares (including 8,140 million shares, previously held by the MOF and Huijin, converted from state-owned shares) with a par value of RMB1 each were issued at a price of HK\$3.07 per share.

(v) In connection with the A-share offering of the Bank during the year, 14,950 million new A-shares with a par value of RMB1 each were issued at a price of RMB3.12 per share.

(vi) Upon the completion of the initial public offerings in the SEHK and the SSE,

- the remaining state-owned shares held by the MOF and Huijin were registered as A-shares;
- the remaining state-owned shares held by the SSF were converted to H-shares on an one-for-one basis, as approved by the CSRC on 19 September 2006; and
- the unlisted foreign legal person shares held by Goldman Sachs, Dresdner Bank Luxembourg S.A. and American Express Company were converted into H-shares on an one-for-one basis.

Except for dividends for H-shares which are payable in HK\$, all of the H-shares and A-shares rank pari passu with each other in respect of dividends.

### Share appreciation rights plan

During the year, a share appreciation rights plan has been approved, which allows the share appreciation rights to be granted to eligible participants including directors, supervisors, senior management and other key personnel designated by the board of directors. The share appreciation rights will be granted and exercised based on the price of the Bank's H-shares and will be valid for ten years. As at the date of this report, no share appreciation right has been granted.

### 31. RESERVES

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

	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 1 January 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 restructuring	—	—	—	22,697	—	—	22,697	—
Capital injection	19,906	—	—	—	—	—	19,906	—
Equity contribution arising from the disposal of impaired assets	567,558	—	—	—	—	—	567,558	—
Elimination of capital and reserves with accumulated losses and transfer of capital and reserves to share capital	(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 31 December 2005 and 1 January 2006	(2,014)	375	1,700	—	2,032	(138)	1,955	4,895
Profit for the year	—	—	—	—	—	—	—	49,185
Net change in the fair value of available-for-sale investments	—	—	—	—	(268)	—	(268)	—
Reserve realised on disposal of available-for-sale investments	—	—	—	—	20	—	20	—
Foreign currency translation	—	—	—	—	—	27	27	—
Issue of shares	110,685	—	—	—	—	—	110,685	—
Share issue expenses	(3,652)	—	—	—	—	—	(3,652)	—
Dividend — 2005 final	—	—	—	—	—	—	—	(3,537)
Dividend — 2006 interim	—	—	—	—	—	—	—	(18,593)
Dividend — 2006 special	—	—	—	—	—	—	—	(10,146)
Appropriation to surplus reserves (note)	—	5,086	—	—	—	—	5,086	(5,086)
Appropriation to general reserve	—	—	11,019	—	—	—	11,019	(11,019)
Balance as at 31 December 2006	105,019	5,461	12,719	—	1,784	(111)	124,872	5,699

Note: Includes the appropriation made by overseas branches in the amount of RMB11 million.

### **(a) Capital reserve**

Pursuant to the restructuring during the year ended 31 December 2005, 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. In the preparation of the Group's financial statements, the paid-up capital and all the then existing reserves and accumulated losses as determined under IFRSs were accordingly eliminated, with the resulting difference dealt with in the capital reserve. Increase in capital reserve during the year represented the premium of shares newly issued (including interest income generated from the subscription monies), after deducting related share issue expenses.

### **(b) 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 approval of the shareholders in the 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.

### **(c) 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 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 the financial statements of the subsidiaries and branches incorporated outside Mainland China.

### **(d) Distributable profit**

The Bank's distributable profit is based on the retained profits of the Bank as determined under the generally accepted accounting principles in the PRC and IFRSs, whichever is lower. 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 these financial statements, which are prepared in accordance with IFRSs.

## 32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Analysis of balances of cash and cash equivalents

	Notes	2006	2005
Cash on hand	16	31,446	30,085
Balances with central banks other than restricted deposits	16	74,704	69,650
Nostro accounts with banks and other financial institutions with original maturity of three months or less	17	7,547	8,095
Placements with banks and other financial institutions with original maturity of three months or less	17	151,372	88,080
Reverse repurchase agreements with original maturity of three months or less	18	10,291	81,302
Investments with original maturity of three months or less (i)		231,434	17,212
		506,794	294,424

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

	Notes	2006	2005
Available-for-sale debt securities	20(c)	499,108	324,879
Debt securities at fair value through profit or loss	20(d)	21,113	18,341
		520,221	343,220
Balances with original maturity over three months		(288,787)	(326,008)
		231,434	17,212

### (b) Significant non-cash transactions

	2006	2005
Payable to MOF capitalised as capital	8,028	—
Disposal of loss category loans and other impaired assets	—	246,000
Disposal of doubtful category loans and receipt of special PBOC bills	—	430,465
Receipt of a special PBOC bill for settlement of amounts due from Huarong	4,325	—
Disposal of doubtful category loans for settlement of amount due to a central bank	—	23,537
Disposal of impaired loans and converted into other assets	3,562	—
Revaluation of property and equipment	—	22,697
Interest income and expense in relation to the special government bond	—	5,610
Capital injection in the form of land use rights	—	19,906

### 33. 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.

The Group and the Bank had derivative financial instruments at year end as follows:

#### Group

	31 December 2006						
	Notional amounts with remaining life of					Fair values	
	Within three months	Over three months but	Over one year but	Over five years	Total	Assets	Liabilities
		within one year	within five years				
Exchange rate contracts:							
Forward foreign exchange contracts	78,784	92,581	4,189	487	176,041	549	(671)
Currency option contracts purchased	3,631	6,067	94,882	—	104,580	8,717	(20)
	82,415	98,648	99,071	487	280,621	9,266	(691)
Interest rate contracts:							
Interest rate swap contracts	6,254	23,798	41,554	31,766	103,372	1,089	(1,735)
Cross-currency swap contracts	797	1,147	1,454	2,930	6,328	123	(127)
Forward rate agreements	3,045	2,952	19,959	7,028	32,984	56	(56)
Interest rate option contracts purchased/written	564	1,197	1,742	3,297	6,800	3	(3)
	10,660	29,094	64,709	45,021	149,484	1,271	(1,921)
Other derivative contracts	79	—	—	—	79	2	(1)
	93,154	127,742	163,780	45,508	430,184	10,539	(2,613)

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

	31 December 2006						
	Notional amounts with remaining life of					Fair values	
	Within three months	Over three	Over one	Over five	Total	Assets	Liabilities
		months but within one year	year but within five years				
Interest rate contracts:							
Interest rate swap contracts	172	1,110	7,281	1,556	10,119	97	(258)
Cross-currency swap contracts	—	—	62	—	62	—	(17)
	172	1,110	7,343	1,556	10,181	97	(275)

### Bank

	31 December 2006						
	Notional amounts with remaining life of					Fair values	
	Within three months	Over three	Over one	Over five	Total	Assets	Liabilities
		months but within one year	year but within five years				
Exchange rate contracts:							
Forward foreign exchange contracts	63,316	89,736	4,079	487	157,618	513	(631)
Currency option contracts purchased	—	—	93,704	—	93,704	8,696	—
	63,316	89,736	97,783	487	251,322	9,209	(631)
Interest rate contracts:							
Interest rate swap contracts	5,722	20,041	34,234	29,201	89,198	979	(1,571)
Cross-currency swap contracts	797	1,147	1,050	2,915	5,909	120	(124)
Forward rate agreements	3,045	2,952	19,959	7,028	32,984	56	(56)
Interest rate option contracts purchased/written	—	—	45	3,148	3,193	—	—
	9,564	24,140	55,288	42,292	131,284	1,155	(1,751)
	72,880	113,876	153,071	42,779	382,606	10,364	(2,382)

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

	31 December 2006							
	Notional amounts with remaining life of					Fair values		
	Within three months	Over three months but within one year	Over one year but within five years	Over five years	Total	Assets	Liabilities	
Interest rate contracts:								
Interest rate swap contracts	172	373	5,817	1,088	7,450	44	(249)	
Cross-currency swap contracts	—	—	62	—	62	—	(17)	
	172	373	5,879	1,088	7,512	44	(266)	

## Group

	31 December 2005							
	Notional amounts with remaining life of					Fair values		
	Within three months	Over three months but within one year	Over one year but within five years	Over five 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)	

## Bank

	31 December 2005						
	Notional amounts with remaining life of					Fair values	
	Within three months	Over three months but within one year	Over one year but within five years	Over five years	Total	Assets	Liabilities
		year	years	years			
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)
	39,029	24,110	97,811	950	161,900	7,724	(371)
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	—	—
	16,960	23,799	64,297	58,067	163,123	1,430	(2,358)
	55,989	47,909	162,108	59,017	325,023	9,154	(2,729)

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

## Group and Bank

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

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

### Replacement costs

	Group		Bank	
	2006	2005	2006	2005
Currency derivatives	9,266	7,851	9,209	7,724
Interest rate derivatives	1,271	2,106	1,155	1,430
Other derivatives	2	—	—	—
	10,539	9,957	10,364	9,154

### Credit risk weighted amounts

	Group		Bank	
	2006	2005	2006	2005
Currency derivatives	2,685	1,456	2,284	1,140
Interest rate derivatives	2,271	3,403	2,065	2,622
Other derivatives	6	—	—	—
	4,962	4,859	4,349	3,762

## 34. COMMITMENTS AND CONTINGENT LIABILITIES

### (a) Capital commitments

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

	Group		Bank	
	2006	2005	2006	2005
Authorised, but not contracted for	2,496	680	2,479	680
Contracted, but not provided for	526	1,370	526	1,367
	3,022	2,050	3,005	2,047

### (b) Operating lease commitments

At the 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		Bank	
	2006	2005	2006	2005
Within one year	1,387	1,331	1,265	1,219
Between the second and fifth year, inclusive	2,917	2,844	2,661	2,649
After five years	1,443	1,665	1,346	1,506
	5,747	5,840	5,272	5,374

### (c) Credit commitments

At any given time, the Group has outstanding commitments to extend credit. These commitments take the form of approved loans and credit card limits.

The Group provides letters of credit and financial guarantees to guarantee the performance of customers to third parties.

Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

The contractual amounts of credit commitments by categories are set out below. The amounts disclosed in respect of loan commitments are under the assumption that the amounts will be fully advanced. The amounts for letters of credit and guarantees represent the maximum potential losses that would be recognised at the balance sheet date if the counterparties failed to perform as contracted.

	Group		Bank	
	2006	2005	2006	2005
Letters of credit issued	74,531	51,718	71,793	49,075
Guarantees issued	171,205	121,117	168,410	117,291
Acceptances	134,684	92,565	134,684	92,565
Undrawn commitments to lend:				
Within one year	80,812	25,665	48,375	11,507
Over one year	143,785	74,566	127,303	63,975
Undrawn credit limit for credit card	89,477	67,728	88,709	67,071
	694,494	433,359	639,274	401,484

	Group		Bank	
	2006	2005	2006	2005
Credit risk weighted amounts of credit commitments	386,513	237,221	376,710	233,151

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.

#### (d) 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 the year are as follows:

	Group		Bank	
	2006	2005	2006	2005
Claimed amounts	3,722	2,929	3,722	2,908

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.

#### (e) 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 31 December 2006, the Bank had underwritten and sold bonds with an accumulated amount of RMB205,522 million (2005: RMB232,418 million) 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.

#### (f) Underwriting obligations

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

	Group and Bank	
	2006	2005
Underwriting obligations	—	2,370

### 35. DESIGNATED DEPOSITS AND LOANS

	Group and Bank	
	2006	2005
Designated deposits	125,020	101,718
Designated loans	124,189	101,212

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 amount of deposits, which is included in amounts due to customers.

### 36. ASSETS PLEDGED AS SECURITY

As at 31 December 2006, the assets of the Group and of the Bank including securities, bills and loans which have been pledged for the repurchase agreements amounted to approximately RMB48,610 million (2005: RMB32,301 million) and RMB49,119 million (2005: RMB33,109 million), respectively.

### 37. FIDUCIARY ACTIVITIES

The Group provides custody, trustee and asset management services to third parties. Revenue from such activities is included in "Fee and commission income" set out in note 6 above. Those assets held in a fiduciary capacity are not included in the financial statements.

### 38. RELATED PARTY DISCLOSURES

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

#### (a) The MOF

ICBC was formerly a state-owned financial institution under the control of the State Council through the MOF. The Bank has undergone a restructuring under the direction of the State Council. As at 31 December 2006, the MOF directly owned 35.3292% 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 government bonds. Details of the material transactions are as follows:

	2006	2005
Balances at end of the year:		
The PRC government bonds and the special government bond	431,717	365,823
MOF receivable (note 20(a)(iii))	226,378	246,000
Payable to MOF (note 29)	12,224	8,028
	2006	2005
Transactions during the year:		
Subscription of PRC government bonds	123,570	86,445
Redemption of PRC government bonds	34,140	24,184
Interest income on bonds	11,154	15,165
Expenses relating to the special government bond (note 20(a)(ii))	—	5,610
Repayment of MOF receivable (note 20(a)(iii))	19,622	—
Interest income on MOF receivable	7,418	3,895
	2006	2005
	%	%
The interest rate ranges during the year are as follows:		
Interest income on bonds	1.6 to 11.8	1.6 to 11.8

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 related party transactions that require disclosure.

## (b) Huijin

Huijin was incorporated as a wholly-state-owned investment company with the approval of the State Council. It was established to hold certain equity investments on behalf of the State Council, and to represent the Government in exercising its investors' rights and obligations in certain financial institutions. As at 31 December 2006, Huijin directly owned approximately 35.3292% of the issued share capital of the Bank.

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 Bank 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 US\$15,000 million capital injection made by Huijin in 2005.

The Bank values the option using the Garman Kohlhagen Option model. The parameters used for the valuation include relevant market interest rates of RMB and United States dollar ("US\$"), the spot exchange rates of RMB against US\$ sourced from the PBOC, and average historical foreign exchange volatility.

The fair value of the option as at 31 December 2006 was RMB8,696 million (2005: RMB7,335 million), which is included in other assets (note 24). The premium payable in respect of the option was stated at its discounted value of RMB2,849 million as at 31 December 2006 (2005: RMB2,767 million) and is included in other liabilities (note 29). The related gain for the year was RMB1,279 million (2005: RMB4,226 million) and is included in "Gain/(loss) from foreign exchange and foreign exchange products, net".

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. Details of the material transactions are as follows:

	2006	2005
Balances at end of the year:		
Deposits from Huijin	14,911	—
Payable to Huijin (note 29)	12,224	—
	2006	2005
Transactions during the year:		
Interest expenses on deposits	176	—
	2006	2005
	%	%
The interest rate range during the year is as follow:		
Interest expenses on deposits	0.7 to 5.1	—

Huijin has equity interests in certain other banks and financial institutions under the direction of the Government. The Group enters into transactions with these banks and financial institutions in the ordinary course of its business at normal commercial terms. The directors consider that these banks and financial institutions are competitors of the Group. Significant transactions during the year conducted with these banks and financial institutions, subsequent to Huijin becoming a shareholder of the Bank, and the corresponding balances as at 31 December 2006 are as follows:

	2006	2005
Balances at end of the year:		
Debt securities issued by these banks and financial institutions	7,997	7,497
Due from these banks and financial institutions	19,774	13,591
Due to these banks and financial institutions	21,064	12,055

	2006	2005
Transactions during the year:		
Interest income from debt securities issued by these banks and financial institutions	398	334
Interest income from amounts due from these banks and financial institutions	103	311
Interest expenses on amounts due to these banks and financial institutions	400	164

	2006	2005
	%	%
Interest rate ranges during the year are as follows:		
Debt securities issued by these banks and financial institutions	3.7 to 8.3	4.3 to 8.3
Due from these banks and financial institutions	0 to 10.0	0 to 4.7
Due to these banks and financial institutions	0 to 13.0	0 to 5.0

Interest rates disclosed above 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.

## (c) Shareholders with significant influence

### (i) Goldman Sachs

Goldman Sachs is considered to have significant influence over the Bank in view of its nominated representative serving on the Bank's board of directors. The corresponding balances as at 31 December 2006 are as follow:

	2006	2005
Balances at end of the year:		
Debt securities issued by Goldman Sachs	4,993	N/A
Deposits from Goldman Sachs	1,554	N/A
Transactions during the year:		
Interest income from debt securities issued by Goldman Sachs	143	N/A
Interest expense on deposits from Goldman Sachs	8	N/A
Interest rate ranges during the year are as follows:		
Debt securities issued by Goldman Sachs	2.8 to 6.0	N/A
Deposits from Goldman Sachs	5.27	N/A

### (ii) SSF

SSF has substantial equity interests in the Bank and is considered having significant influence in the Bank. The corresponding balances as at 31 December 2006 are as follows:

	2006	2005
Balances at end of the year:		
Deposits from SSF	13,500	N/A
Transactions during the year:		
Interest expense on deposits from SSF	491	N/A
The interest rate range during the year is as follow:		
Deposits from SSF	3.5 to 4.1	N/A

### (d) Associates

Balances with associates at end of the year:

	2006	2005
Due to associates	31	76

### (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 compensation for the year, other than those disclosed in note 9 above, is as follows:

	2006	2005
	RMB'000	RMB'000
Salaries and other emoluments	2,338	2,956
Discretionary bonuses	3,773	2,999
Contributions to defined contribution schemes	950	1,315
	7,061	7,270

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 the PRC

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 year, the Group had 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.

The management considers that transactions with other state-owned entities are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly controlled or owned by the Government. The Group has also established pricing policies 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 related party transactions that require disclosure.

## 39. SEGMENT INFORMATION

Segment information is presented in respect of the Group's business and geographical segments. The Group managed its business both by business segment, which mainly include corporate banking, personal banking and treasury operations, and geographical segment. 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/expenses". Interest income and expenses earned from third parties are referred to as "external net interest income/expenses".

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.

### (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 segment 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.

	Corporate banking	Personal banking	Treasury operations	Others	Total
<b>Year ended 31 December 2006</b>					
External net interest income/(expenses)	118,980	(32,028)	76,166	—	163,118
Internal net interest income/(expenses)	(31,415)	84,796	(53,381)	—	—
Net fee and commission income	6,682	9,489	173	—	16,344
Other operating income/(expenses), net	(1,789)	—	2,416	1,549	2,176
Operating income	92,458	62,257	25,374	1,549	181,638
Operating expenses	(33,519)	(33,142)	(7,904)	(2,832)	(77,397)
Provision for impairment losses on:					
Loans and advances to customers	(27,951)	(2,063)	—	—	(30,014)
Others	(513)	—	40	(1,702)	(2,175)
Operating profit/(loss)	30,475	27,052	17,510	(2,985)	72,052
Share of profits and losses of associates	—	—	—	13	13
Profit/(loss) before tax	30,475	27,052	17,510	(2,972)	72,065
Income tax expense					(22,185)
Profit for the year					49,880
Other segment information:					
Depreciation	3,987	4,445	1,081	184	9,697
Amortisation	501	423	90	17	1,031
Capital expenditure	2,672	2,979	725	123	6,499
<b>31 December 2006</b>					
Segment assets	3,059,987	642,691	3,799,188	6,758	7,508,624
Investments in associates	—	—	—	127	127
Total assets	3,059,987	642,691	3,799,188	6,885	7,508,751
Segment liabilities	3,168,662	3,371,670	492,996	4,422	7,037,750
Other segment information:					
Credit commitments	605,017	89,477	—	—	694,494

	Corporate banking	Personal banking	Treasury operations	Others	Total
<b>Year ended 31 December 2005</b>					
External net interest income/(expenses)	112,255	(21,157)	62,505	—	153,603
Internal net interest income/(expenses)	(33,275)	68,710	(35,435)	—	—
Net fee and commission income/(expenses)	4,666	5,993	(113)	—	10,546
Other operating income, net	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)
Provision 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
<b>31 December 2005</b>					
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
Other segment information:					
Credit commitments	365,631	67,728	—	—	433,359

## (b) Geographical segments

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

In presenting information on the basis of geographical segment, 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 details of the geographical segments are as follows:

- (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, Luxembourg; and subsidiaries including ICBC (Asia), ICIC, ICEA, ICBC (London), ICBC (Almaty), ICBC Credit Suisse Asset Management and ICBC (Luxembourg).

	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Overseas and others	Eliminations	Total
<b>Year ended 31 December 2006</b>										
External net interest income	80,407	28,431	13,140	6,551	12,386	15,161	3,015	4,027	—	163,118
Internal net interest income/(expenses)	(65,579)	8,589	8,242	26,780	8,609	8,655	5,889	(1,185)	—	—
Net fee and commission income	747	3,511	2,505	2,983	2,277	2,342	986	993	—	16,344
Other operating income/(expenses), net	(2,949)	1,457	936	699	739	741	164	389	—	2,176
Operating income	12,626	41,988	24,823	37,013	24,011	26,899	10,054	4,224	—	181,638
Operating expenses	(6,115)	(13,138)	(9,424)	(12,952)	(12,957)	(14,063)	(6,992)	(1,756)	—	(77,397)
Provisions for impairment losses on:										
Loans and advances to customers	(2,111)	(3,116)	(2,758)	(4,629)	(3,655)	(6,454)	(7,000)	(291)	—	(30,014)
Others	—	(203)	(23)	(668)	(510)	(565)	(245)	39	—	(2,175)
Operating profit/(loss)	4,400	25,531	12,618	18,764	6,889	5,817	(4,183)	2,216	—	72,052
Share of profits and losses of associates	8	—	—	—	—	—	—	5	—	13
Profit/(loss) before tax	4,408	25,531	12,618	18,764	6,889	5,817	(4,183)	2,221	—	72,065
Income tax expense										(22,185)
Profit for the year										49,880
Other segment information:										
Depreciation	862	1,513	1,129	1,640	1,636	1,803	1,057	57	—	9,697
Amortisation	309	155	53	95	164	140	60	55	—	1,031
Capital expenditure	983	1,104	583	1,362	965	1,110	273	119	—	6,499
<b>31 December 2006</b>										
Segment assets	4,205,413	1,484,222	921,113	1,845,511	912,074	983,362	503,022	208,601	(3,554,694)	7,508,624
Investments in associates	74	—	—	—	—	—	—	53	—	127
Total assets	4,205,487	1,484,222	921,113	1,845,511	912,074	983,362	503,022	208,654	(3,554,694)	7,508,751
Segment liabilities	3,806,740	1,459,101	909,847	1,827,843	907,456	979,484	508,779	175,359	(3,554,694)	7,019,915
Unallocated liabilities										17,835
Total liabilities										7,037,750
Other segment information:										
Credit commitments	124,432	158,164	68,919	159,544	45,045	50,603	12,270	75,517	—	694,494

	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Overseas and others	Eliminations	Total
<b>Year ended 31 December 2005</b>										
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/ (expenses)	(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, net	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
<b>31 December 2005</b>										
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
Other segment information:										
Credit commitments	104,544	73,571	52,094	50,767	27,004	49,847	8,913	66,619	—	433,359

## 40. FINANCIAL INSTRUMENTS RISK MANAGEMENT

A description and an analysis of the major risks faced by the Group are as follows:

### (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 one single industry or geographic location or have comparable economic characteristics.

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 the credit granted on a regular basis. 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 industrial and geographical concentration of the Group's credit business are set out below.

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

	Group				Bank			
	2006		2005		2006		2005	
Manufacturing	683,286	19%	673,664	20%	677,208	19%	667,894	21%
Transportation and logistics	536,624	15%	379,015	11%	526,625	15%	369,059	12%
Power generation and supply	346,499	9%	284,935	9%	345,896	10%	283,974	9%
Retail, wholesale and catering	272,480	8%	280,969	9%	259,232	7%	269,044	8%
Property development	256,184	7%	217,000	7%	237,475	7%	199,993	6%
Education, hospitals and other non-profit making organisations	107,537	3%	104,890	3%	107,534	3%	104,017	3%
Construction	53,745	2%	93,864	3%	49,982	1%	89,688	3%
Others	374,561	10%	335,074	10%	358,756	10%	322,765	10%
Subtotal for corporate loans	2,630,916	73%	2,369,411	72%	2,562,708	72%	2,306,434	72%
Personal and business mortgage loans	486,074	13%	450,092	14%	474,470	13%	438,146	14%
Others	101,819	3%	77,269	2%	101,685	3%	76,967	2%
Subtotal for personal loans	587,893	16%	527,361	16%	576,155	16%	515,113	16%
	3,218,809	89%	2,896,772	88%	3,138,863	88%	2,821,547	88%
Discounted bills	412,362	11%	392,781	12%	412,313	12%	392,717	12%
	3,631,171	100%	3,289,553	100%	3,551,176	100%	3,214,264	100%

In light of the supplementary requirements of the financial statistics system of the PBOC in 2006, the Bank has changed the grouping among its personal loans. Corresponding adjustment was made to the grouping at the end of 2005.

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

	Group			
	2006		2005	
Head Office	259,289	7%	263,117	8%
Yangtze River Delta	907,125	25%	791,990	24%
Pearl River Delta	513,514	14%	453,773	14%
Bohai Rim	640,213	18%	574,513	17%
Central China	467,142	13%	424,628	13%
Western China	533,444	15%	484,134	15%
Northeastern China	198,427	5%	193,000	6%
Overseas and others	112,017	3%	104,398	3%
	3,631,171	100%	3,289,553	100%

The Bank level geographical segment information of gross loans and advance is not presented since the relevant balances attributable to the subsidiaries are insignificant to the Group and are mainly included in the "Overseas and others" segment above.

### (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.

The maturity analysis of assets and liabilities of the Group and the Bank at the balance sheet date is as follows:

**31 December 2006**  
**Group**

	Overdue/ repayable on demand	Less than three months	Three months to one year	One to five years	More than five years	Undated	Total
<b>Assets:</b>							
Cash and balances with central banks	106,150	—	—	—	—	597,507	703,657
Due from banks and other financial institutions (i)	5,698	185,220	52,356	2,450	—	—	245,724
Loans and advances to customers	45,600	570,370	1,086,543	885,149	859,394	86,922	3,533,978
Investments							
— Receivables	—	—	—	994,163	112,000	—	1,106,163
— Held-to-maturity debt securities	—	181,603	462,029	376,922	208,383	—	1,228,937
— Available-for-sale investments	—	85,825	120,571	137,802	154,910	5,434	504,542
— Investments at fair value through profit or loss	—	5,818	12,470	1,660	1,165	43	21,156
— Investments in associates	—	—	—	—	—	127	127
Property and equipment	—	—	—	—	—	87,609	87,609
Others	10,343	9,970	14,228	10,617	845	30,855	76,858
<b>Total assets</b>	<b>167,791</b>	<b>1,038,806</b>	<b>1,748,197</b>	<b>2,408,763</b>	<b>1,336,697</b>	<b>808,497</b>	<b>7,508,751</b>
<b>Liabilities:</b>							
Due to banks and other financial institutions (ii)	347,465	91,340	9,737	81	305	—	448,928
Due to customers (iii)	3,190,873	1,108,245	1,472,879	581,930	3,954	—	6,357,881
Debt issued	—	—	—	2,947	35,000	—	37,947
Others	135,867	18,036	32,423	6,586	82	—	192,994
<b>Total liabilities</b>	<b>3,674,205</b>	<b>1,217,621</b>	<b>1,515,039</b>	<b>591,544</b>	<b>39,341</b>	<b>—</b>	<b>7,037,750</b>
<b>Net liquidity gap</b>	<b>(3,506,414)</b>	<b>(178,815)</b>	<b>233,158</b>	<b>1,817,219</b>	<b>1,297,356</b>	<b>808,497</b>	<b>471,001</b>

(i) Includes reverse repurchase agreements

(ii) Includes repurchase agreements

(iii) Includes certificates of deposits

**31 December 2006**  
**Bank**

	Overdue/ repayable on demand	Less than three months	Three months to one year	One to five years	More than five years	Undated	Total
<b>Assets:</b>							
Cash and balances with central banks	105,745	—	—	—	—	597,500	703,245
Due from banks and other financial institutions (i)	12,556	141,310	52,356	2,450	—	—	208,672
Loans and advances to customers	41,077	561,820	1,077,350	853,091	835,531	85,563	3,454,432
Investments							
— Receivables	—	—	—	994,163	112,000	—	1,106,163
— Held-to-maturity debt securities	—	179,885	464,077	377,700	214,549	—	1,236,211
— Available-for-sale investments	—	85,484	119,235	131,116	152,429	4,375	492,639
— Investments at fair value through profit or loss	—	5,818	12,264	1,142	164	—	19,388
— Investments in subsidiaries	—	—	—	—	—	7,260	7,260
— Investments in associates	—	—	—	—	—	74	74
Property and equipment	—	—	—	—	—	87,251	87,251
Others	8,714	9,557	14,094	10,534	782	29,632	73,313
<b>Total assets</b>	<b>168,092</b>	<b>983,874</b>	<b>1,739,376</b>	<b>2,370,196</b>	<b>1,315,455</b>	<b>811,655</b>	<b>7,388,648</b>
<b>Liabilities:</b>							
Due to banks and other financial institutions (ii)	347,656	89,415	10,235	81	305	—	447,692
Due to customers	3,168,111	1,033,468	1,466,126	579,754	3,944	—	6,251,403
Debt issued	—	—	—	—	35,000	—	35,000
Others	133,614	17,737	32,054	6,477	81	—	189,963
<b>Total liabilities</b>	<b>3,649,381</b>	<b>1,140,620</b>	<b>1,508,415</b>	<b>586,312</b>	<b>39,330</b>	<b>—</b>	<b>6,924,058</b>
<b>Net liquidity gap</b>	<b>(3,481,289)</b>	<b>(156,746)</b>	<b>230,961</b>	<b>1,783,884</b>	<b>1,276,125</b>	<b>811,655</b>	<b>464,590</b>

(i) Includes reverse repurchase agreements

(ii) Includes repurchase agreements

**31 December 2005**  
**Group**

	Overdue/ repayable on demand	Less than three months	Three months to one year	One to five years	More than five years	Undated	Total
<b>Assets:</b>							
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 debt 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 subsidiaries	—	—	—	—	—	120	120
Property and equipment	—	—	—	—	—	92,984	92,984
Others	11,875	17,053	7,774	4,643	2,122	32,740	76,207
<b>Total assets</b>	<b>180,562</b>	<b>847,791</b>	<b>1,445,625</b>	<b>2,287,160</b>	<b>1,008,443</b>	<b>686,550</b>	<b>6,456,131</b>
<b>Liabilities:</b>							
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
<b>Total liabilities</b>	<b>3,165,158</b>	<b>1,178,690</b>	<b>1,399,701</b>	<b>412,811</b>	<b>39,895</b>	<b>—</b>	<b>6,196,255</b>
<b>Net liquidity gap</b>	<b>(2,984,596)</b>	<b>(330,899)</b>	<b>45,924</b>	<b>1,874,349</b>	<b>968,548</b>	<b>686,550</b>	<b>259,876</b>

(i) Includes reverse repurchase agreements

(ii) Includes repurchase agreements

(iii) Includes certificates of deposits

**31 December 2005**  
**Bank**

	Overdue/ repayable on demand	Less than three months	Three months to one year	One to five years	More than five years	Undated	Total
<b>Assets:</b>							
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 debt 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 subsidiaries	—	—	—	—	—	7,112	7,112
— Investments in associates	—	—	—	—	—	74	74
Property and equipment	—	—	—	—	—	92,615	92,615
Others	9,970	16,909	7,244	4,643	2,002	32,596	73,364
<b>Total assets</b>	<b>165,486</b>	<b>838,635</b>	<b>1,439,474</b>	<b>2,253,199</b>	<b>988,034</b>	<b>689,997</b>	<b>6,374,825</b>
<b>Liabilities:</b>							
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
<b>Total liabilities</b>	<b>3,144,123</b>	<b>1,133,482</b>	<b>1,396,532</b>	<b>405,954</b>	<b>39,884</b>	<b>—</b>	<b>6,119,975</b>
<b>Net liquidity gap</b>	<b>(2,978,637)</b>	<b>(294,847)</b>	<b>42,942</b>	<b>1,847,245</b>	<b>948,150</b>	<b>689,997</b>	<b>254,850</b>

(i) Includes reverse repurchase agreements

(ii) Includes repurchase agreements

**(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 notes 40(e) and 40(d), respectively.

**(d) Currency risks**

The Group conducts its businesses mainly in RMB, with certain transactions denominated in US\$, Hong Kong dollar ("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 the exchange rate of US\$ to RMB has gradually risen. 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 used the injected capital of US\$15,000 million in 2005 mainly to invest in debt investments and money market instruments denominated in US\$. 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 38(b).

The Group used the net proceeds from its H-share offering mainly in placements with banks and other financial institutions and investments. The Group is managing the currency risk of this exposure through various means including entering into hedging activities that are available to the Group.

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

**31 December 2006**  
**Group**

	RMB	US\$	HK\$	Others	Total
<b>Assets:</b>					
Cash and balances with central banks	693,056	7,122	2,049	1,430	703,657
Due from banks and other financial institutions (i)	52,616	168,370	17,057	7,681	245,724
Loans and advances to customers	3,300,615	127,069	87,635	18,659	3,533,978
Investments	2,640,638	199,870	7,756	12,661	2,860,925
Property and equipment	86,927	331	259	92	87,609
Others	66,657	4,388	3,764	2,049	76,858
<b>Total assets</b>	<b>6,840,509</b>	<b>507,150</b>	<b>118,520</b>	<b>42,572</b>	<b>7,508,751</b>
<b>Liabilities:</b>					
Due to banks and other financial institutions (ii)	354,267	77,240	9,113	8,308	448,928
Due to customers (iii)	6,095,210	155,269	88,658	18,744	6,357,881
Debt issued	35,000	2,947	—	—	37,947
Others	128,554	55,118	4,364	4,958	192,994
<b>Total liabilities</b>	<b>6,613,031</b>	<b>290,574</b>	<b>102,135</b>	<b>32,010</b>	<b>7,037,750</b>
<b>Net position</b>	<b>227,478</b>	<b>216,576</b>	<b>16,385</b>	<b>10,562</b>	<b>471,001</b>
<b>Off-balance sheet credit commitments</b>	<b>454,140</b>	<b>156,451</b>	<b>56,923</b>	<b>26,980</b>	<b>694,494</b>

(i) Includes reverse repurchase agreements

(ii) Includes repurchase agreements

(iii) Includes certificates of deposits

**31 December 2006**  
**Bank**

	RMB	US\$	HK\$	Others	Total
<b>Assets:</b>					
Cash and balances with central banks	693,031	7,096	1,869	1,249	703,245
Due from banks and other financial institutions (i)	52,334	129,063	21,231	6,044	208,672
Loans and advances to customers	3,300,615	109,212	29,712	14,893	3,454,432
Investments	2,640,584	201,399	9,185	10,567	2,861,735
Property and equipment	86,906	240	15	90	87,251
Others	66,790	4,341	293	1,889	73,313
<b>Total assets</b>	<b>6,840,260</b>	<b>451,351</b>	<b>62,305</b>	<b>34,732</b>	<b>7,388,648</b>
<b>Liabilities:</b>					
Due to banks and other financial institutions (ii)	354,339	75,413	10,178	7,762	447,692
Due to customers	6,094,985	111,855	28,193	16,370	6,251,403
Debt issued	35,000	—	—	—	35,000
Others	128,503	54,705	1,786	4,969	189,963
<b>Total liabilities</b>	<b>6,612,827</b>	<b>241,973</b>	<b>40,157</b>	<b>29,101</b>	<b>6,924,058</b>
<b>Net position</b>	<b>227,433</b>	<b>209,378</b>	<b>22,148</b>	<b>5,631</b>	<b>464,590</b>
Off-balance sheet credit commitments	454,130	148,288	11,589	25,267	639,274

(i) Includes reverse repurchase agreements

(ii) Includes repurchase agreements

**31 December 2005**  
**Group**

	RMB	US\$	HK\$	Others	Total
<b>Assets:</b>					
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
<b>Total assets</b>	<b>5,963,372</b>	<b>338,811</b>	<b>104,423</b>	<b>49,525</b>	<b>6,456,131</b>
<b>Liabilities:</b>					
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
<b>Total liabilities</b>	<b>5,882,742</b>	<b>187,573</b>	<b>86,517</b>	<b>39,423</b>	<b>6,196,255</b>
<b>Net position</b>	<b>80,630</b>	<b>151,238</b>	<b>17,906</b>	<b>10,102</b>	<b>259,876</b>
Off-balance sheet credit commitments	329,797	64,909	28,259	10,394	433,359

(i) Includes reverse repurchase agreements

(ii) Includes repurchase agreements

(iii) Includes certificates of deposits

## 31 December 2005

### Bank

	RMB	US\$	HK\$	Others	Total
<b>Assets:</b>					
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
<b>Total assets</b>	<b>5,961,205</b>	<b>318,212</b>	<b>49,966</b>	<b>45,442</b>	<b>6,374,825</b>
<b>Liabilities:</b>					
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
<b>Total liabilities</b>	<b>5,899,614</b>	<b>143,175</b>	<b>47,473</b>	<b>29,713</b>	<b>6,119,975</b>
<b>Net position</b>	<b>61,591</b>	<b>175,037</b>	<b>2,493</b>	<b>15,729</b>	<b>254,850</b>
Off-balance sheet credit commitments	304,403	64,899	21,788	10,394	401,484

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

The tables below summarise the contractual repricing or maturity date, whichever is earlier, of the Group's and the Bank's financial assets and liabilities.

**31 December 2006**  
**Group**

	Effective interest rate (i)	Less than three months	Three months to one year	One to five years	More than five years	Non-interest- bearing	Total
<b>Assets:</b>							
Cash and balances with central banks	1.79%	617,383	—	—	—	86,274	703,657
Due from banks and other financial institutions (ii)	3.46%	190,918	52,356	2,450	—	—	245,724
Loans and advances to customers	5.42%	1,176,901	2,357,077	—	—	—	3,533,978
Investments	2.60%	350,141	726,705	1,404,686	373,789	5,604	2,860,925
Property and equipment	N/A	—	—	—	—	87,609	87,609
Others	N/A	—	—	—	—	76,858	76,858
<b>Total assets</b>	<b>N/A</b>	<b>2,335,343</b>	<b>3,136,138</b>	<b>1,407,136</b>	<b>373,789</b>	<b>256,345</b>	<b>7,508,751</b>
<b>Liabilities:</b>							
Due to banks and other financial institutions (iii)	2.02%	438,512	9,737	81	305	293	448,928
Due to customers (iv)	1.66%	4,216,311	1,468,208	572,380	3,954	97,028	6,357,881
Debt issued	3.32%	11,947	—	13,000	13,000	—	37,947
Others	N/A	—	—	—	—	192,994	192,994
<b>Total liabilities</b>	<b>N/A</b>	<b>4,666,770</b>	<b>1,477,945</b>	<b>585,461</b>	<b>17,259</b>	<b>290,315</b>	<b>7,037,750</b>
Interest rate mismatch	N/A	(2,331,427)	1,658,193	821,675	356,530	N/A	N/A

- (i) Effective interest rate represents the ratio of interest income/expense to average interest-generating assets/interest-bearing liabilities
- (ii) Includes reverse repurchase agreements
- (iii) Includes repurchase agreements
- (iv) Includes certificates of deposits

**31 December 2006**  
**Bank**

	Effective interest rate (i)	Less than three months	Three months to one year	One to five years	More than five years	Non-interest- bearing	Total
<b>Assets:</b>							
Cash and balances with central banks	1.79%	617,204	—	—	—	86,041	703,245
Due from banks and other financial institutions (ii)	3.47%	153,866	52,356	2,450	—	—	208,672
Loans and advances to customers	5.41%	1,149,719	2,304,713	—	—	—	3,454,432
Investments	2.60%	348,003	729,637	1,400,756	371,630	11,709	2,861,735
Property and equipment	N/A	—	—	—	—	87,251	87,251
Others	N/A	—	—	—	—	73,313	73,313
<b>Total assets</b>	<b>N/A</b>	<b>2,268,792</b>	<b>3,086,706</b>	<b>1,403,206</b>	<b>371,630</b>	<b>258,314</b>	<b>7,388,648</b>
<b>Liabilities:</b>							
Due to banks and other financial institutions (iii)	2.14%	437,071	10,235	81	305	—	447,692
Due to customers	1.63%	4,120,527	1,462,092	571,154	3,944	93,686	6,251,403
Debt issued	3.24%	9,000	—	13,000	13,000	—	35,000
Others	N/A	—	—	—	—	189,963	189,963
<b>Total liabilities</b>	<b>N/A</b>	<b>4,566,598</b>	<b>1,472,327</b>	<b>584,235</b>	<b>17,249</b>	<b>283,649</b>	<b>6,924,058</b>
Interest rate mismatch	N/A	(2,297,806)	1,614,379	818,971	354,381	N/A	N/A

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

(ii) Includes reverse repurchase agreements

(iii) Includes repurchase agreements

**31 December 2005  
Group**

	Effective interest rate (i)	Less than three months	Three months to one year	One to five years	More than five years	Non- interest- bearing	Total
<b>Assets:</b>							
Cash and balances with central banks	1.68%	480,660	—	—	—	73,213	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
<b>Total assets</b>	<b>N/A</b>	<b>2,142,675</b>	<b>2,500,816</b>	<b>1,341,680</b>	<b>223,132</b>	<b>247,828</b>	<b>6,456,131</b>
<b>Liabilities:</b>							
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
<b>Total liabilities</b>	<b>N/A</b>	<b>4,148,027</b>	<b>1,381,599</b>	<b>420,459</b>	<b>17,828</b>	<b>228,342</b>	<b>6,196,255</b>
Interest rate mismatch	N/A	(2,005,352)	1,119,217	921,221	205,304	N/A	N/A

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

(ii) Includes reverse repurchase agreements

(iii) Includes repurchase agreements

(iv) Includes certificates of deposits

**31 December 2005**  
**Bank**

	Effective interest rate (i)	Less than three months	Three months to one year	One to five years	More than five years	Non- interest- bearing	Total
<b>Assets:</b>							
Cash and balances with central banks	1.68%	480,539	—	—	—	73,033	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
<b>Total assets</b>	<b>N/A</b>	<b>2,094,114</b>	<b>2,464,507</b>	<b>1,341,500</b>	<b>223,892</b>	<b>250,812</b>	<b>6,374,825</b>
<b>Liabilities:</b>							
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
<b>Total liabilities</b>	<b>N/A</b>	<b>4,087,568</b>	<b>1,374,427</b>	<b>413,644</b>	<b>17,817</b>	<b>226,519</b>	<b>6,119,975</b>
Interest rate mismatch	N/A	(1,993,454)	1,090,080	927,856	206,075	N/A	N/A

- (i) Effective interest rate represents the ratio of interest income/expense to average interest-generating assets/interest-bearing liabilities
- (ii) Includes reverse repurchase agreements
- (iii) Includes repurchase agreements

**41. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The following table summarises the carrying values and the fair values of receivables, held-to-maturity debt securities and subordinated bonds for which their fair values have not been presented or disclosed above:

	Group		Bank	
	Carrying value	Fair value	Carrying value	Fair value
31 December 2006:				
Receivables	1,106,163	1,106,246	1,106,163	1,106,246
Held-to-maturity debt securities	1,228,937	1,233,124	1,236,211	1,240,391
Subordinated bonds	35,000	34,263	35,000	34,263
31 December 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

Subject to the existence of an active market, such as an authorised securities exchange, the market value is the best reflection of the fair value of financial instruments. As there is no available market value for certain 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 values of these assets and liabilities:

- (a) The receivables relating to the restructuring of the Bank are non-transferable. The fair values of these receivables are estimated on the basis of the stated interest rates and the consideration of the relevant special clauses of the instrument evaluated in the absence of any other relevant observable market data, and the fair values approximate to their carrying amounts.
- (b) The fair values of held-to-maturity debt securities and subordinated bonds are determined with reference to the available market values. If quoted market prices are not available, then fair values are estimated on the bases of pricing models or discounted cash flows.

All of the above-mentioned assumptions and methods provide a consistent basis for the calculation of the fair values 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.

Those financial instruments for which their carrying amounts are the reasonable approximations of their fair values because, for example, they are short term in nature or reprice to current market rates frequently, are as follows:

**Assets**

Cash and balance with central banks  
Due from banks and other financial institutions  
Reverse repurchase agreements  
Loans and advances to customers  
Other assets

**Liabilities**

Due to banks and other financial institutions  
Repurchase agreements  
Due to customers  
Other liabilities

## 42. POST BALANCE SHEET EVENTS

Subsequent to 31 December 2006, the following significant events occurred:

### (i) Changes in corporate income tax rate

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the future financial impact of the New Corporate Income Tax Law to the Group cannot be estimated at this stage. However, management of the Group expects that the Group will benefit from the New Corporate Income Tax Law.

**(ii) Profit appropriation**

The Board of Directors' meeting was held on 3 April 2007, and a final dividend of approximately RMB5,344 million, equivalent to RMB0.016 per share, was proposed.

**43. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the board of directors on 3 April 2007.

## Unaudited Supplementary Financial Information

31 December 2006

(In RMB millions, unless otherwise stated)

**(a) Significant differences between the financial statements prepared under International Financial Reporting Standards (“IFRSs”) and those prepared in accordance with the Accounting Standards for Business Enterprises, the Accounting System for Financial Institutions (2001 version) and other relevant regulations including Caikui (2005) No. 14 “Provisional Guidelines on Recognition and Measurement of Financial Instruments” (“MOF (14)”) issued by the Ministry of Finance of the PRC (the “MOF”), People’s Bank of China (the “PBOC”) and the China Banking Regulatory Commission (“CBRC”) (hereinafter collectively referred to as “PRC GAAP”)**

A reconciliation of differences between the financial statements prepared under PRC GAAP and those prepared in accordance with IFRSs is set out below.

	Notes	2006	2005
Profit for the year attributable to equity holders of the Bank under PRC GAAP		48,719	37,405
Reversal of amortisation of goodwill	(i)	100	150
Recognition of revaluation surplus on disposed assets	(ii)	444	—
Profit for the year attributable to equity holders of the Bank under IFRSs		49,263	37,555
		2006	2005
Equity attributable to equity holders of the Bank under PRC GAAP		466,896	256,947
Reversal of amortisation of goodwill	(i)	371	271
Reversal of revaluation surplus	(ii)	(803)	(1,379)
Equity attributable to equity holders of the Bank under IFRSs		466,464	255,839

Notes:

**(i) Reversal of amortisation of goodwill**

In accordance with the relevant provisions under IFRSs, goodwill is assessed for impairment annually and not amortised. Accordingly, the amortisation of goodwill under PRC GAAP is reversed in the financial statements prepared in accordance with IFRSs.

**(ii) Reversal of revaluation surplus and recognition of revaluation surplus on disposed assets**

In the financial statements prepared under PRC GAAP, the Group performed the revaluation on certain assets (including equity investments, repossessed assets and intangible assets, etc.) pursuant to the relevant requirements, with the revaluation surplus recognised in the capital reserve. Under IFRSs, such assets are carried at cost and the revaluation surplus was reversed accordingly. In relation to the disposal of such assets, adjustments on reversal of recognition of valuation surplus were made accordingly. In respect of the available-for-sale equity investments among these assets, when they meet specific conditions to be measured at the fair value under IFRS, the adjustments of reversal of valuation surplus were made to the investment revaluation reserve accordingly.

**(b) Liquidity ratios**

	2006	2005
RMB current assets to RMB current liabilities	48.87%	48.89%
Foreign currency current assets to foreign currency current liabilities	84.75%	83.42%

The above liquidity ratios as at 31 December 2005 are calculated in accordance with the formula promulgated by the PBOC and the CBRC and are based on the financial data and information included in the statutory financial statements of the Group and has not reflected the impact of MOF (14) issued by the MOF. The ratios as at 31 December 2006 are calculated based on the financial information prepared in accordance with PRC GAAP as defined in (a) above.

### (c) Capital adequacy ratio

The Group calculates and reports the capital adequacy ratios in accordance with the guidelines "Regulation Governing Capital Adequacy of Commercial Banks" (Order (2004) No. 2) which were promulgated by the CBRC on 23 February 2004, and implemented on 1 March 2004, together with the "Notice from China Banking Regulatory Commission on Guidance for the Calculation of Capital Requirement of Market Risks for Commercial Banks", issued by the CBRC on 30 December 2004. The requirements pursuant to these guidelines may have significant differences compared to those applicable in Hong Kong or other countries.

The capital adequacy ratios and the relate components of the Group as at 31 December 2005 are arrived at using the financial data and information in the statutory financial statements of the Group and has not reflected the impact of MOF (14) issued by the MOF. The capital adequacy ratios and the related components of the Group as of 31 December 2006 are computed in accordance with PRC GAAP as defined in (a) above.

	2006	2005
Core capital adequacy ratio	12.23%	8.11%
Capital adequacy ratio	14.05%	9.89%
Components of capital base		
Core capital:		
Share capital	334,019	248,000
Reserves	125,523	5,444
Minority interests	4,537	4,037
Total core capital	464,079	257,481
Supplementary capital:		
General provisions for doubtful debts	33,645	21,846
Reserve for net change in the fair value of available-for-sale investments	1,005	—
Subordinated bonds	35,000	35,000
Total supplementary capital	69,650	56,846
Total capital base before deductions	533,729	314,327
Deductions:		
Unconsolidated equity investments <sup>(1)</sup>	(1,729)	(1,176)
Goodwill <sup>(1)</sup>	(1,195)	(1,307)
Net capital base	530,805	311,844
Core capital base after deductions <sup>(1)</sup>	462,019	255,586
Risk weighted assets and market risk capital adjustment	3,779,170	3,152,206

(1) Pursuant to the relevant regulations, the core capital base after deductions was derived by applying 50% and 100% of deductions in the unconsolidated equity investments and goodwill, respectively.

### (d) Currency concentrations other than RMB

	US\$	HK\$	Others	Total
As of 31 December 2006				
Spot assets	506,727	118,226	42,491	667,444
Spot liabilities	(290,574)	(102,135)	(32,010)	(424,719)
Forward purchases	73,699	20,541	16,982	111,222
Forward sales	(105,079)	(18,280)	(21,943)	(145,302)
Net option position	(93,387)	(24)	(289)	(93,700)
Net long position	91,386	18,328	5,231	114,945
Net structural position	423	294	81	798
As of 31 December 2005				
Spot assets	338,484	104,162	49,237	491,883
Spot liabilities	(187,573)	(86,517)	(39,423)	(313,513)
Forward purchases	55,263	6,205	13,015	74,483
Forward sales	(29,459)	(21,156)	(19,931)	(70,546)
Net option position	(96,925)	6	31	(96,888)
Net long position	79,790	2,700	2,929	85,419
Net structural position	327	261	288	876

The net option position is calculated using the delta equivalent approach required by the Hong Kong Monetary Authority (the "HKMA"). The net structural position of the Group includes the structural positions of the Bank's overseas branches, banking subsidiaries and other subsidiaries substantially involved in foreign exchange. Structural assets and liabilities include:

- investments in fixed assets and premises, net of depreciation charges;
- capital and statutory reserves of overseas branches; and
- investments in overseas subsidiaries and related companies.

### (e) Cross-border claims

The Group is principally engaged in business operations within Mainland China, and regards all claims on third parties outside Mainland China as cross-border claims.

Cross-border claims include loans and advances, balances with central banks, balances and placements with banks and other financial institutions, and investment securities.

Cross-border claims have been disclosed by country or geographical area as required by the HKMA. A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of cross-border claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

	Banks and other financial institutions	Public sector entities	Others	Total
As of 31 December 2006:				
Asia Pacific excluding Mainland China	103,751	1,018	78,519	183,288
— of which attributed to Hong Kong	24,570	854	68,951	94,375
Europe	124,621	123	13,067	137,811
North and South America	46,247	74,264	24,207	144,718
	274,619	75,405	115,793	465,817
As of 31 December 2005:				
Asia Pacific excluding Mainland China	51,106	1,599	72,182	124,887
— of which attributed to Hong Kong	8,829	1,203	61,313	71,345
Europe	76,471	162	6,068	82,701
North and South America	32,766	119	7,207	40,092
	160,343	1,880	85,457	247,680

## (f) Overdue Assets

### (i) Overdue loans and advances to customers

	2006	2005
Gross loans and advances to customers of the Group which have been overdue with respect to either principal or interest for periods of:		
Between 3 and 6 months	22,815	36,284
Between 6 and 12 months	16,620	36,478
Over 12 months	94,181	80,989
Total	133,616	153,751
As a percentage of total gross loans and advances to customers:		
Between 3 and 6 months	0.6%	1.1%
Between 6 and 12 months	0.5%	1.1%
Over 12 months	2.6%	2.5%
Total	3.7%	4.7%

The above analysis includes loans and advances overdue for more than three months as required and defined by the HKMA.

Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

For loans and advances repayable by regular instalments, if part of the instalments is overdue, the whole amount of these loans would be classified as overdue.

**(ii) Overdue placements with banks and other financial institutions**

	2006	2005
Gross placements with banks and other financial institutions of the Group which have been overdue with respect to either principal or interest for periods of:		
Between 3 and 6 months	—	65
Over 12 months	213	332
<b>Total</b>	<b>213</b>	<b>397</b>
As a percentage of total gross placements with banks and other financial institutions:		
Between 3 and 6 months	—	0.1%
Over 12 months	0.1%	0.3%
<b>Total</b>	<b>0.1%</b>	<b>0.4%</b>

**(g) Overdue loans and advances to customers by geographical segments**

	2006	2005
Yangtze River Delta	10,137	12,401
Pearl River Delta	22,699	23,601
Bohai Rim	27,396	28,882
Central	18,202	20,827
Western	25,234	28,847
Northeastern	27,949	37,353
Head Office	665	616
Overseas	1,334	1,224
<b>Total</b>	<b>133,616</b>	<b>153,751</b>

The above analysis includes loans and advances overdue for more than three months as required and defined by the HKMA.

Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

For loans and advances repayable by regular instalments, if part of the instalments is overdue, the whole amount of these loans would be classified as overdue.

**(h) Rescheduled loans and advances to customers**

	2006		2005	
		% of total loans and advances		% of total loans and advances
Rescheduled loans and advances	59,592	1.6%	70,988	2.2%
Less: Rescheduled loans and advances overdue more than three months	48,540	1.3%	58,625	1.8%
Rescheduled loans and advances overdue less than three months	11,052	0.3%	12,363	0.4%

## List of Domestic and Overseas Branches and Offices

### DOMESTIC BRANCHES

#### ANHUI PROVINCIAL BRANCH

Address: No. 189 Wuhu Road,  
Hefei City, Anhui  
Province, China

Postcode: 230001

Tel: 0551-2869178/2868110

Fax: 0551-2868077

#### BEIJING MUNICIPAL BRANCH

Address: Tower B, Tianyin  
Mansion, No. 2  
Fuxingmen South  
Street, Xicheng District,  
Beijing, China

Postcode: 100031

Tel: 010-66410581/66410579

Fax: 010-66410581

#### CHONGQING MUNICIPAL BRANCH

Address: No. 9 Jiangnan Road,  
Nan'an District,  
Chongqing, China

Postcode: 400060

Tel: 023-62918002/62918047

Fax: 023-6291805

#### DALIAN MUNICIPAL BRANCH

Address: No. 5 Zhongshan  
Square, Zhongshan  
District, Dalian City,  
Liaoning Province,  
China

Postcode: 116001

Tel: 0411-82820168/82819593

Fax: 0411-82808377

#### FUJIAN PROVINCIAL BRANCH

Address: No. 108 Gutian Road,  
Fuzhou City, Fujian  
Province, China

Postcode: 350005

Tel: 0591-83321521/83347074

Fax: 0591-83353905

#### GANSU PROVINCIAL BRANCH

Address: No. 358 Jingning Road,  
Lanzhou City, Gansu  
Province, China

Postcode: 730030

Tel: 0931-8773587/8884824

Fax: 0931-8773633

#### GUANGDONG PROVINCIAL BRANCH

Address: No. 123 Yanjiangxi  
Road, Guangzhou City,  
Guangdong Province,  
China

Postcode: 510120

Tel: 020-81308130/81308123

Fax: 020-81308789

#### GUANGXI ZHUANG NATIONALITY AUTONOMOUS REGION BRANCH

Address: No. 15-1 Jiaoyu Road,  
Nanning City, Guangxi  
Province, China

Postcode: 530022

Tel: 0771-5390162/5316617

Fax: 0771-5316617

#### GUIZHOU PROVINCIAL BRANCH

Address: No. 41 Ruijin Middle  
Road, Guiyang City,  
Guizhou Province,  
China

Postcode: 550003

Tel: 0851-8620000/8620018

Fax: 0851-5963911/8620017

#### HAINAN PROVINCIAL BRANCH

Address: Tower A, No. 3 Heping  
South Road, Haikou  
City, Hainan Province,  
China

Postcode: 570203

Tel: 0898-65355774/65342829

FAX: 0898-65342986

#### HEBEI PROVINCIAL BRANCH

Address: No. 366, Gongnong  
Road, Shijiazhuang City,  
Hebei Province, China

Postcode: 050051

Tel: 0311-83728202/83728106

Fax: 0311-83728232/83728136

#### HENAN PROVINCIAL BRANCH

Address: No. 99, Jingsan Road,  
Zhengzhou City, Henan  
Province, China

Postcode: 450011

Tel: 0371-65776888/65951420

Fax: 0371-65776889

**HEILONGJIANG PROVINCIAL BRANCH**

Address: No. 218 Zhongyang Road, Daoli District, Harbin City, Heilongjiang Province, China  
 Postcode: 150010  
 Tel: 0451-84698074/84698116  
 Fax: 0451-84698115

**HUBEI PROVINCIAL BRANCH**

Address: No. 372 Jiefang Road, Wuchang District, Wuhan City, Hubei Province, China  
 Postcode: 430060  
 Tel: 027-88726049  
 Fax: 027-88726077

**HUNAN PROVINCIAL BRANCH**

Address: No. 619 Furong Middle Road Yi Duan, Changsha City, Hunan Province, China  
 Postcode: 410011  
 Tel: 0731-4428833/4420000  
 Fax: 0731-4430039

**JILIN PROVINCIAL BRANCH**

Address: No. 136 Tongzhi Street, Chaoyang District, Changchun City, Jilin Province, China  
 Postcode: 130061  
 Tel: 0431-88965747/88965533  
 Fax: 0431-88923808

**JIANGSU PROVINCIAL BRANCH**

Address: No. 408 Zhongshan South Road, Nanjing City, Jiangsu Province, China  
 Postcode: 210006  
 Tel: 025-52858000/52858999  
 Fax: 025-52858000

**JIANGXI PROVINCIAL BRANCH**

Address: No. 233, Fuhe North Road, Nanchang City, Jiangxi Province  
 Postcode: 330008  
 Tel: 0791-6695361/6695018  
 Fax: 0791-6695230

**LIAONING PROVINCIAL BRANCH**

Address: No. 88 Nanjing North Street, Heping District, Shenyang City, Liaoning Province, China  
 Postcode: 110001  
 Tel: 024-23414525/23414313  
 Fax: 024-23414520

**INNER MONGOLIA AUTONOMOUS REGION BRANCH**

Address: No. 105 Xilin North Road, Huhehot City, Inner Mongolia, China  
 Postcode: 010050  
 Tel: 0471-6940192/6940297  
 Fax: 0471-6940591/6940048

**NINGBO MUNICIPAL BRANCH**

Address: Xinxing Mansion, No. 218 Zhongshan West Road, Ningbo City, Zhejiang Province, China  
 Postcode: 315010  
 Tel: 0574-87361731/87361101  
 Fax: 0574-87361190

**NINGXIA HUI NATIONALITY AUTONOMOUS REGION BRANCH**

Address: No. 901 Huanghe East Road, Jinfeng District, Yinchuan City, Ningxia, China  
 Postcode: 750002  
 Tel: 0951-6073345/5029739  
 Fax: 0951-5042348

**QINGDAO MUNICIPAL BRANCH**

Address: No. 25 Shandong Road, Nanshan District, Qingdao City, Shandong Province, China  
 Postcode: 266071  
 Tel: 0532-85814361/85841349  
 Fax: 0532-85814711

**QINGHAI PROVINCIAL BRANCH**

Address: No. 2, Shengli Road, Xining City, Qinghai Province, China  
 Postcode: 810001  
 Tel: 0971-6146733/6146734  
 Fax: 0971-6146733

**SHANDONG PROVINCIAL  
BRANCH**

Address: No. 310 Jingsi Road,  
Jinan City, Shandong  
Province, China  
Postcode: 250001  
Tel: 0531-87925688/87943363  
Fax: 0531-87941749

**SHANXI PROVINCIAL BRANCH**

Address: No. 145 Yingze Street,  
Taiyuan City, Shanxi  
Province, China  
Postcode: 030001  
Tel: 0351-4035227/4048840  
Fax: 0351-4036779

**SHAANXI PROVINCIAL  
BRANCH**

Address: No. 395 Dongxin  
Street, Xi'an City,  
Shaanxi Province, China  
Postcode: 710004  
Tel: 029-87602608/87602630  
Fax: 029-87602999

**SHANGHAI MUNICIPAL  
BRANCH**

Address: No. 9 Pudong Avenue,  
Pudong New District,  
Shanghai, China  
Postcode: 200120  
Tel: 021-58885888  
Fax: 021-58886888

**SHENZHEN MUNICIPAL  
BRANCH**

Address: North Block Financial  
Center, No. 5055  
Shennan East Road,  
Luohu District,  
Shenzhen City,  
Guangdong Province,  
China

Postcode: 518015  
Tel: 0755-82246400/82276496  
Fax: 0755-82246249

**SICHUAN MUNICIPAL BRANCH**

Address: No. 35 Zongfu Road,  
Jinjiang District,  
Chengdu City, Sichuan  
Province, China  
Postcode: 610016  
Tel: 028-82866000/82866011  
Fax: 028-82866025

**TIANJIN MUNICIPAL BRANCH**

Address: No. 123 Weidi Road,  
Hexi District, Tinajin,  
China  
Postcode: 300074  
Tel: 022-28400033/28401380  
Fax: 022-28400123

**XIAMEN MUNICIPAL BRANCH**

Address: No. 17 Hubin North  
Road, Xiamen City,  
Fujian Province, China  
Postcode: 361012  
Tel: 0592-5054404/5292000  
Fax: 0592-5054663

**XINJIANG UIGUR  
NATIONALITY AUTONOMOUS  
REGION BRANCH**

Address: No. 231 Remin Road,  
Tianshan District,  
Urumuqi, Xinjiang,  
China  
Postcode: 830002  
Tel: 0991-5981888/2822701  
Fax: 0991-2828608

**YUNNAN PROVINCIAL  
BRANCH**

Address: Bank Mansion, No. 395  
Qingnian Road,  
Kunming City, Yunnan  
Province, China  
Postcode: 650021  
Tel: 0871-3136172/3178888  
Fax: 0871-3134637

**ZHEJIANG PROVINCIAL  
BRANCH**

Address: No. 150 Zhonghe  
Middle Road, Hangzhou  
City, Zhejiang Province,  
China  
Postcode: 310009  
Tel: 0571-87803888  
Fax: 0571-87808207

**OVERSEAS BRANCHES OFFICES AND SUBSIDIARIES****ICBC, Hong Kong Branch**

Industrial & Commercial  
Bank of China Limited,  
Hong Kong Branch  
Address: 33/F, ICBC Tower, 3  
Garden Road, Central,  
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Email: berylchan@icbcasia.com  
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Fax: +852-25213394  
SWIFT: ICBKHKHH

**ICBC, Macau Branch**

Industrial & Commercial  
Bank of China Limited,  
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E,F,G,H,Edf.Dynasty  
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Email: icbc@icbc.com.mo  
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**ICBC, Singapore Branch**

Industrial & Commercial  
Bank of China Limited,  
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Singapore 048580  
Email: icbcsg@icbc.com.sg  
Tel: +65-65381066  
Fax: +65-65381370  
SWIFT: ICBKSGSG

**ICBC, Tokyo Branch**

Industrial & Commercial  
Bank of China Limited,  
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Chome, Chiyoda-Ku  
Tokyo, 100-0005, Japan  
Email: icbctokyo@icbc.co.jp  
Tel: +813-52233888  
Fax: +813-52198502  
SWIFT: ICBKJPJT

**ICBC, Seoul Branch**

Industrial & Commercial  
Bank of China Limited,  
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Bldg., #310  
Taepeongno2-ga,  
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Email: icbcseoul@kr.icbc.com.cn  
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Fax: +822-7563127  
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**ICBC, Busan Branch**

Industrial and Commercial  
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737, Korea  
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**ICBC, Frankfurt Branch**

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Fax: +4969-50604708  
SWIFT: ICBKDEFF

**ICBC, Luxembourg Branch**

Industrial and Commercial  
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2012 Luxembourg  
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Fax: +352-2686666  
SWIFT: ICBKLULL

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Bank of China (Almaty) Joint  
Stock Company**

Industrial and Commercial  
Bank of China (Almaty)  
Joint Stock Company  
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Almaty, Kazakhstan,  
050000  
Email: office@icbcalmaty.kz  
Tel: +7 3272-596402  
Fax: +7 3272-596400  
SWIFT: ICBKKZKX

**Industrial and Commercial  
Bank of China, (London)  
Limited**

Industrial and Commercial  
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(London) Limited  
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EC2V 8BB, UK  
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Fax: +4420-73978899  
SWIFT: ICBKGB2L

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Luxembourg S.A.**

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Fax: +212-8385770

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Valovaya Street 21,  
Building 125  
Email: icbcmoscow@yahoo.com.cn  
Tel: +7495-7751065  
Fax: +7495-7751066

**Industrial and Commercial  
Bank of China Limited,  
Sydney Representative Office**

Industrial & Commercial  
Bank of China Limited, Sydney  
Representative Office  
Address: Suite 2, Level 14, 60  
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Email: sydneyoffice@icbc.com.au  
Tel: +612-9233-2233  
Fax: +612-9233-3982

**Industrial and Commercial  
Bank of China (Asia) Limited**

Industrial and Commercial  
Bank of China (Asia) Limited  
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Garden Road, Central,  
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Email: berylchan@icbcasia.com  
Tel: +852-35108822  
Fax: +852-25213394  
SWIFT: UBHKHKHH

**Industrial and Commercial  
International Capital Limited**

Industrial and Commercial  
International Capital Limited  
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Email: icic@icic.com.hk  
Tel: +852-2521 5661  
Fax: +852-2810 0473  
SWIFT: ICILHKHH

**Industrial and Commercial  
East Asia Finance Holdings  
Limited**

Industrial and Commercial  
East Asia Finance  
Holdings Limited  
Address: 26th Floor, ICBC Tower,  
3 Garden Road,  
Central, Hong Kong  
Email: mkwan@icea.com.hk  
Tel: +852-2231-8330  
Fax: +852-2525-2965



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