



中 信 銀 行 股 份 有 限 公 司

CHINA CITIC BANK CORPORATION LIMITED

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

(Stock Code: 998)

ANNOUNCEMENT OF ANNUAL RESULTS 2007

SUMMARY OF RESULTS

The Board of Directors of China CITIC BANK Corporation Limited (the “Bank”) is pleased to announce the audited results, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”) promulgated by the International Accounting Standards Board, of the Bank and its subsidiaries (collectively the “Group”) for the year ended 31 December 2007. The annual results have been reviewed by the Audit and Related Party Transaction Control Committee of the Bank’s Board of Directors.

Financial Overviews

Operating Performance

Item	2007	2006	<i>(Unit: in millions of RMB)</i>
			Compared with the same period last year
Operating income	27,955	17,927	55.94%
Profit before taxation	13,172	7,002	88.12%
Net profit attributable to shareholders	8,322	3,858	115.71%
Net operating cash flow	29,519	(7,574)	—
Per share			
Basic earning per share <i>(RMB)</i>	0.23	0.12	91.67%
Diluted earning per share <i>(RMB)</i>	0.23	0.12	91.67%
Net cash flow per share from operating activities <i>(RMB)</i>	0.76	(0.24)	—

Item	End of 2007	End of 2006	Compared with the same period last year
Net asset value attributable to shareholders (<i>RMB</i>)	2.15	1.02	110.78%

Scale Indicators

			(Unit: in millions of <i>RMB</i>)
Item	2007	2006	Compared with the same period last year
Total assets	1,011,186	706,723	43.08%
Loans and advances to customers	578,028	463,167	24.80%
Total liabilities	927,095	675,029	37.34%
Deposits from customers	787,211	618,412	27.30%
Total equity attributable to shareholders	84,086	31,689	165.35%

Profitability Indicators

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

Asset Quality Indicators

<i>(Unit: in millions of RMB)</i>			
Item	2007	2006	Compared
			with the same period last year (+)/(-)
Non-performing loan (NPL) ratio	1.47%	2.50%	-1.03
Provision coverage	110.01%	84.62%	25.39
Allowance/total loans	1.62%	2.11%	-0.49

Capital Adequacy Indicators

<i>(Unit: in millions of RMB)</i>			
Item	2007	2006	Compared
			with the same period last year (+)/(-)
Capital adequacy ratio	15.27%	9.41%	5.86
Core capital adequacy ratio	13.14%	6.57%	6.57
Total equity/total assets	8.32%	4.48%	3.84

Discrepancies between Domestic and International Accounting Standards

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

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

Five year financial summary

(Unit: in millions of RMB)

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

Management Discussion and Analysis

1. Economy, Financial and Regulatory Environment

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

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

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

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

2. Financial Statement Analysis

Overview

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

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

Overview of Major Indicators of Operating Results

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

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

Asset & share capital return In 2007, our Group’s ROAA was 0.97%, an increase of 0.38 percentage point from last year, and ROAE was 14.37%, up from 14.05% of last year. Operating efficiency has been further enhanced.

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

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

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

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

Provisions for impairment loss At the end of 2007, the balance of provisions for impairment losses was RMB9.342 billion, which dropped RMB444 million from the end of last year. Provision coverage ratio was 110.01%, representing an increase of 25.39 percentage points as compared to the end of last year.

Income Statement Analysis

	<i>(Unit: in millions of RMB)</i>		
	31 December 2007	31 December 2006	31 December 2005
Net interest income	26,170	16,473	12,660
Net non-interest income	1,785	1,454	995
General and administrative expense	(11,795)	(9,259)	(7,104)
Provisions for impairment losses	(2,988)	(1,666)	(1,098)
Profit before tax	13,172	7,002	5,453
Income tax	(4,850)	(3,144)	(2,369)
Net profit	8,322	3,858	3,084
Attributable to:			
Shareholders of the Bank	8,322	3,858	3,083
Minority interests	—	—	1

Net Interest Income

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

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

(Unit: in millions of RMB)

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

(1) Include the amounts due to central bank and subordinated debt issued.

(2) Representing the difference between the average yield of total interest-earning assets and the average cost of total interest-bearing liabilities.

(3) Calculated by dividing the net interest income by the average balance of total interest-earning assets.

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

Unit: in millions of RMB

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

Interest Income

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

Interest Income from Loans and Advances to Customers

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

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

(Unit: in millions of RMB)

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

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

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

Interest Income from Investments in Debt Securities

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

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

Interest Income from Balances with Central Banks

In 2007, the Group's interest income from balances with central banks amounted to RMB1.511 billion, representing a year-on-year increase of RMB547 million, or 56.74%, as a result of the increase in the average balance and the average yield. Among that, average balances with central banks increased by RMB26.380 billion, or 42.24% from that of 2006,

mainly because (1) the statutory deposit reserve ratio was gradually lifted from 9% at the end of 2006 to 14.5% at the end of 2007, and (2) the balance of the statutory deposit reserve funds increased according to the increase in deposits from customers. The growth of average yield from 1.54% in 2006 to 1.70% in 2007 was attributable to the Group's enhanced funds positions operations and stable surplus reserves ratio. However, the Group was able to maintain stable liquidity and reduce the proportion of average surplus reserves in average balance with central banks respectively.

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

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

Interest Expense

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

Interest Expense on Deposits from Customers

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

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

Unit: in millions of RMB

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

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

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

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

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

Interest Expense on Other Borrowed Funds

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

Net Interest Yield and Net Interest Spread

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

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

Net Non-interest Income

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

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

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

Net Fee and Commission Income

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

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

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

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

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

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

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

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

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

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

Net Gain/(Loss) from Dealing

	<i>(Unit: in millions of RMB)</i>		
	2007	2006	2005
Net gain/(loss) arising from foreign exchange transactions	144	503	—
Bonds	(161)	10	66
Derivative instruments	(632)	(60)	83
Financial liabilities at fair value through profit or loss	<u>(185)</u>	<u>1</u>	<u>(40)</u>
Total	<u>(834)</u>	<u>454</u>	<u>109</u>

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

Net Gain/(Loss) Arising from Investment Securities

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

Other Net Operating Income

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

Expenses on Impairment Losses

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

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

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

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

General and Administrative Expenses

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

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

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

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

Income Tax Analysis

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

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

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

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

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

Balance Sheet Analysis

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

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

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

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

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

Loan Businesses

Loans by Types of Customers

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

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

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

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

Loans and Advances to Customers by Geographical Location

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

(1) Includes the headquarters.

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

Breakdown of Loans by Industry Sectors

(Unit: in millions of RMB)

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

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

Maturity Profile of Loan Portfolio

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

(Unit: in millions of RMB)

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

(1) Include all or part of the principals overdue for less than 30 days (inclusive).

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

Breakdown of Loans by Currency

(Unit: in millions of RMB)

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

Breakdown of Loans by Types of Guarantee

(Unit: in millions of RMB)

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

Concentration of Borrowing

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

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

(Unit: in millions of RMB)

31 December 2007

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

Loan Quality Analysis

Five-category Classification of Loans

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

(Unit: in millions of RMB)

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

Changes in Provisions for Impairment Losses

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

	<i>(Unit: in millions of RMB)</i>		
	2007	2006	2005
Beginning balance	9,786	12,230	14,958
Accrual of the year ⁽¹⁾	2,860	1,481	1,055
Discount reversal ⁽²⁾	(187)	(210)	(275)
Transfer out ⁽³⁾	(45)	(153)	(6)
Write-offs	(3,072)	(3,685)	(3,519)
Recoveries of loans and advances written off previously	—	123	17
Ending balance	9,342	9,786	12,230

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

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

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

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

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

Breakdown of NPL by Types Customers

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

Breakdown of NPLs by Geographical Location

(Unit: in millions of RMB)

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

(1) Includes the headquarters.

Breakdown of Corporate NPLs by Industry Sectors

(Unit: in millions of RMB)

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

The Group spared no efforts to reduce loans to industries with high NPL ratio. Total corporate NPLs has demonstrated a declining trend.

Loans Overdue

(Unit: in millions of RMB)

	31 December 2007		31 December 2006		31 December 2005	
	Balance	Proportion %	Balance	Proportion %	Balance	Proportion %
Loans repayable on demand	<u>567,348</u>	<u>98.2</u>	<u>449,427</u>	<u>97.0</u>	<u>352,988</u>	<u>95.3</u>
Loans overdue ⁽¹⁾ :						
1–90 days	2,700	0.5	2,311	0.5	2,988	0.8
91–180 days	438	0.1	735	0.2	1,283	0.4
181 days or above	<u>7,542</u>	<u>1.2</u>	<u>10,694</u>	<u>2.3</u>	<u>13,001</u>	<u>3.5</u>
Subtotal	<u>10,680</u>	<u>1.8</u>	<u>13,740</u>	<u>3.0</u>	<u>17,272</u>	<u>4.7</u>
Total customer loans	<u><u>578,028</u></u>	<u><u>100.0</u></u>	<u><u>463,167</u></u>	<u><u>100.0</u></u>	<u><u>370,260</u></u>	<u><u>100.0</u></u>
Loans overdue for 91 days or above	<u>7,980</u>	<u>1.3</u>	<u>11,429</u>	<u>2.5</u>	<u>14,284</u>	<u>3.9</u>
Restructured loans ⁽²⁾	<u><u>5.303</u></u>	<u><u>0.9</u></u>	<u><u>4,583</u></u>	<u><u>1.0</u></u>		

(1) Overdue loans represent loans with all or part of the principals overdue, or loans with interests overdue while the principals are not due yet.

(2) Restructured loans are loans, previously and advances overdue or impaired but their relevant terms have been re-negotiated.

Investment Businesses

Investment Portfolio Analysis

(Unit: in millions of RMB)

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

Classification of Debt Securities Investment.

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

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

(Unit: in millions of RMB)

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

(Unit: in millions of RMB)

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

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

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

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

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

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

Breakdown of Significant Financial Debt Securities Investment

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

(Unit: in Million of RMB)

Name of Securities	Amount value	Term	Annual interest rate (%)	Note
Securities A	6,900	From 2007-10-12 to 2010-12	3.95	
Securities B	5,000	From 2007-9-7 to 2010-9-7	3.71	
Securities C	3,000	From 2007-3-9 to 2010-3-9	3.07	
Securities D	3,000	From 2007-7-13 to 2010-7-13	3.60	
Securities E	2,177	From 2007-10-19 to	—	Monetary Market Fund
Securities F	1,994	From 2007-11-9 to 200-2-5	—	Zero-coupon securities
Securities G	1,498	From 2007-10-19 to 2008-1-18	—	Zero-coupon securities
Securities H	1,183	From 2007-11-29 to	—	Monetary Market Fund
Securities I	1,000	From 2007-7-11 to 2008-1-11	4.08	
Total	25,752			

Equity Investment

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

Investment Quality Analysis

Changes in the Allowances for Investment Impairment Loss

(Unit: in millions of RMB)

	2007	2006	2005
Beginning balance	242	321	—
Accrual of the year ⁽¹⁾	7	(4)	—
Write-offs	(66)	(79)	—
Transfer in/out ⁽²⁾	(171)	4	—
Ending balance	12	242	—
Including: allowances			
for available-for-sale investments		19	—
Allowances for held-to-maturity investments	12	223	—

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

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

Derivative Classification and Fair Value Analysis

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

In-balance Sheet Interest Receivable

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

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

Liability Business

Deposits from Customers

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

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

Breakdown of Deposits from Customers by Currency

(Unit: in millions of RMB)

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

Breakdown of Deposits by Geographical Location

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

(Unit: in millions of RMB)

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

(1) Includes the headquarters.

Breakdown of Deposits by Remaining Maturity

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

(Unit: in millions of RMB)

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

Shareholders' Equity

(Unit: in millions of RMB)

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

Changes in Shareholders' Equity during the Reporting Period

(Unit: in millions of RMB)

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

Major Off-balance Sheet Items

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

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

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

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

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

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

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

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

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

Capital Adequacy Ratio

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

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

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

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

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

Major Accounting Estimates & Assumptions

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

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

Segment Reporting

Segment Report by Geographical Segments

(Unit: in millions of RMB)

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

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

Segment Reporting by Business Segments

(Unit: in million of RMB)

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

The Group has been able to maintain a leading position in corporate banking business. In 2007, banking business contributed operating profits of RMB12.441 billion to the Group. Due to the Group's increasing focus on developing personal banking business, it experienced a rapid

growth in 2007, recognizing an increase of RMB643 million, or 706.6% in operating profits from last year. While the world experienced a depression in debt market in 2007, China faced a problem in excess liquidity. With the PBOC tightening the liquidity using different types of measures, the Group accurately grasped the market trends and policy directions, flexibly adjusted the investment structure, and effectively control the portfolio risk. The operating profit contributed by the treasury business increased RMB815 million or 64.5% in 2007.

3. Business Overview

(I) Corporate Banking Services

Operating Strategy

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

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

Operating Overview

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

- In 2007, the corporate deposits of the Bank had increased by 24.87%, corporate loan increased by 21.01% and the operating income increased by 57.19%.
- The cash management transaction volume of the Group amounted to RMB907.2 billion, and the number of banking clients increased by 288.02%. The transactions amount and client number of corporate Internet banking increased dramatically, representing an increase of 547.21% and 114.35% from that of 2006 respectively. The Internet banking replacement ratio reached 20.66%.
- The non-interest income of investment banking had increased by 89.35% from that of 2006 indicating a strong trend of increase in non-interest income.
- The business of industry chain financing had increased rapidly with 99 collaborating manufacturers and 1,603 dealers in auto financing and steel financing services, an increase of 54.13% over 2006. The accumulated credit extension for the dealers amounted to RMB97.2 billion, an increase of 75.14% from that of last year. The bank maintained its leading position in the market.
- The small enterprise credit extension balance had increased by 32.95% from 2006 with an NPL rate of only 0.94%, which indicates a stable and healthy growth in small enterprise financial business.
- The payment and receipt volume from international trade had increased by 41.7%, with its CAGR exceeding the growth rate of China national import and export for three consecutive years, which made the Bank still the No.1 player among all small and medium-sized joint stock commercial banks.

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

Corporate Deposits Services

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

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

Financial Institutions Services

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

Corporate Loans Services

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

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

Non-interest Income Products and Business

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

from acceptance and guarantee business was RMB0.295 billion, accounting for 19.6% of the total net non-interest income of corporate business; the non-interest income from the investment banking service was RMB0.320 billion, accounting for 21.26% of the total net non-interest income of corporate banking service.

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

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

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

Asset Custodian Services The asset custodian service of the Bank consists of eight product fields including mutual fund, trust assets, asset management by securities companies (brokerages), QDII, asset-backed securitization, industry fund/venture capital, private equity fund, corporate annuities. By the end of 2007, compared with the previous year, the total value of the custodian asset of the Bank was RMB84.765 billion, an increase of 588.14%; the net income from custodian was RMB0.135 billion, an increase of 743.75% from the previous year, which accounting for 8.97% of the total corporate net non-interest income. While developing

the mutual fund custodian business, the Bank also expanded its custodian business scope to more areas such as industry fund/venture capital fund, private equity fund and asset-backed securitization. With the approval of China Ministry of Labor and Social Security bureau in November 2007, the Bank obtained the custodian qualification for corporate annuities with the No.1 place in the assessment process.

(II) Retail Banking Services

Operating Strategy

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

- Implement the retail banking strategy of “three dimensions & four driving forces”, which requires the integration of the three dimensions of customers, products and core competencies with the mobilization of all staff, interaction between consumer and corporate sector, quality products and high professionalism as the driving forces.
 - Motivating and inspiring every staff to develop retail banking;
 - Develop retail banking business from corporate clients in whole-sale mode, and foster balanced growth of consumer and corporate business;
 - Drive by products, improve the Bank’s attractiveness and market impacts through diversified financial service, and build customer basis and broaden source of saving deposits;
 - Enhance professional service standard via promotion of professionalism and the establishment of designated private relationship manager team.
- The Bank follows the development path of “three steps”, to simultaneously develop the three steps, namely, client accumulation, client management and value-added service to cater to different level of client’s demand with differentiated products and services offerings.
- To build up a retail banking service system with unique characteristics of the Bank.
 - To focus on highly-concentrated client management, to reduce dependence on physical outlets and number of staff by serving clients collectively via electronic channels;
 - To increase technology substitution rate and make full use of electronic channels to develop retail banking service at lower cost;
 - To build up product and service system for high and middle-end clients according to our market positioning of serving high value clients.

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

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

Operating Overview

<i>Unit: in millions of RMB (Except percentages)</i>				
Compare				
2007 with 2006				
	2007	2006	Increased by	Increased rate
Net Interest Income	3,429	2,199	1,230	55.92%
Net Non-interest income	1,258	187	1,071	572.73%
SG&A	(3,823)	(2,315)	(1,508)	65.14%
Asset Impairment Loss	(130)	20	(150)	(750.00%)
Pre-tax profit	734	91	643	706.59%

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

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

- The three profitable areas of individual wealth management, consumer credit and credit card have achieved obvious effect.
 - The turnover from the wealth management products amounted to RMB103.8 billion. The sales turnover made the Bank the top leader among all small and medium-sized stock commercial banks.
 - The balance of individual loans, compared with that of the previous year, increased by 57.29% accounting for 13.23% of the total loans, 2.79 percentage points more than the previous year.

- The number of accumulated credit card issuance of the Bank exceeded 4 million. The transaction amount of the whole year exceeded RMB20 billion, realizing a profit of RMB15.6 million. We're among the first domestic banks to enter the profit-making period in credit card business.
- The establishment of electronic channel of individual Internet banking, telephone banking, ATM and multimedia outlet also made rapid progress. The number of individual Internet banking advanced clients and the individual Internet banking transactions volume increased by 813% and 726% respectively. The replacement ratio of electronic transactions and automatic equipment reached 47%.
- The Private Banking Center targeting high-end clients was established in August 2007 with the initial operation system and management structure in place.

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

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

“CITIC Wealth Management” was honored the top 10 “2007 Best Brand Building of China” by “21st Century Business Herald”.

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

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

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

Retail AUM

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

1 High-end customer: total AUM exceeding (or equal) RMB5 million

2 Retail AUM: the total of individual saving deposits and wealth management products

Retail consumer loans

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

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

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

Wealth Management

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

The personal financial service of the Bank includes the VIP wealth management service targeted at high-end clients and general wealth management service for the public. “CITIC VIP Wealth Management” is our brand targeted at VIP clients. In 2007, the Bank integrated the 12 service items such as golfing, airport boarding, legal advisory and vehicle rescue into a value-added service system for VIP clients and provided customized wealth management service for over 60,000 VIP clients with 60 VIP wealth management centers and 348 VIP wealth management offices as well as around 1,000 highly experienced account managers.

Credit Cards

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

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

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

Channel Construction and Service Quality Management

In 2007, we focused on training to improve service standards of counter staff and set forth the plan for service quality check regarding the services provided by branches. To further improve the inspection process, we have also implemented a "Mystery Customer" mechanism to conduct service quality and customer satisfaction survey with the aim to identify and solve problems in its early stage. Due to the outstanding performance in branch channel construction and service quality, the Bank were awarded the "Channel Innovation Achievement Award" in the contest of "Asia Pacific Retail Financial Service Excellence Award" by "Asian Banker". In addition, the Bank keeps accelerating its construction of electronic retail banking platform (for details, please refer to Management Discussion and Analysis — Distribution Channel).

(III)Treasury and Capital Market Business

Unit: in millions of RMB (Except percentages)

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

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

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

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

The Bank maintained its traditional advantage in foreign exchange business in 2007 with its spot foreign exchange market-making transaction volume ranking No. 1 among all foreign and domestic banks in China and its market shares increased significantly. It was elected the best foreign exchange service provider (No. 2) in China for the second time by Asia Money. The transaction volume of exchange settlement and sales amounted to US\$ 73.9 billion with an increase of 39% from the same period of the previous year, the market share of which remains to be the top one among small and medium-sized joint-stock commercial banks.

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

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

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

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

(IV) Reform of Management System

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

- **Optimize Organization Structure of Front Office**

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

- **Enhance Centralized Risk Control**

- Risk Management: The Bank has established a Post-Loan Management Department independent of the Risk Management Department to be responsible for monitoring and analyzing the Bank's asset quality, and in charge of the post-loan management of corporate lending, retail lending, capital lending and other relevant lending businesses. It also monitors the investment risks of the clients and takes precautionary measures accordingly. Thus the post-loan management can be further enhanced.
- Accounting Procedures: The Accounting Center is fully operational, which processed back-office accounting functions on concentrated basis. This signifies the successful segregation between front and back office so as to lower the operation risks and cut labor costs. In 2007 the Bank has realized the centralization of the accounting in Headquarter and branch levels, and the centralization of the accounting function of asset business to the Headquarters from all branches.
- Treasury Business: Reassign the back-office function, such as the settlement unit, the clearance unit and the accounting unit to the Accounting Department so as to strengthen the internal risk control.

- **Reinforce Financial Management**

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

(V) Advantage of Comprehensive Financial Service Platform of CITIC Group

CITIC Group has subsidiary companies in banking, securities brokage, fund management, trust, insurance and futures business, and many of these subsidiaries are leaders in their respective business sectors. Based on this comprehensive financial service platform, the Bank is gradually building up its unique competitive advantages.

- **Providing Comprehensive Financial Solution**

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

- Short-term financial bond underwriting. The Bank together with CITIC Securities has underwritten a total of RMB1.4 billion of short-term financial bonds for China Machinery Industry Group.
- Issuing trust financing products. Together with CITIC Trust, the Bank provided low cost trust financing service of RMB3.2 billion for 7 high quality clients such as GD Power Development Co., Ltd. and China Unicom.

- **Promoting Sharing of Client Resources and Marketing Channels**

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

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

- **Conducting Cross Design and Cross Selling** The Bank made full use of its unique advantage in the flexible design of wealth management products that can be easily linked with any primary assets, and collaborated with CITIC Trust, CITIC Fund, CITIC Securities, CITIC Construction and Investment Securities and CITIC Prudential Insurance Company Limited under CITIC Group to enter new markets and develop innovative products, e.g., the first of its kind financial investment products like “New Shares Subscription” which is a RMB wealth management product, new shares plus fund investment products and stock option trust investment products. The Bank had sold 71 kinds of wealth management products in collaboration with companies under China CITIC Group with a turnover of RMB91.96 billion, 7.1 and 7.4 times that of the previous year respectively.
 - The cooperation between the Bank and security companies, especially CITIC Securities, has become deeper in every aspect. So far, there have been seven products designed by both parties, the sales turnover has exceeded RMB18.7 billion.
 - The Bank together with CITIC Trust has developed fixed-income products linked with the capital market and stock option including the first investment product on stock investment, “Jinxiu Plan I”, which is the first one of its kind in China banking industry, whose accumulated return has exceeded 150% by the end of 2007.
 - In addition to acting as fund sales agency, the Bank has also cooperated with CITIC Fund in designing 10 investment products. They are the first integrated new share and mutual fund product to be introduced to the market. The sales turnover of 10 products amounted to over RMB24.2 billion.
 - Cooperation with CITIC Prudential Insurance Company Limited has become closer. The two parties call on a cooperation commission meeting every quarter, and in addition to the traditional counter sales they have also developed clients through the “Sky plus Ground” sales model which allows clients to make appointments by dialing 95558 or accessing the Internet.

(VI) Cooperation with Strategic Investors

In 2007, based on the Agreement of Strategic Cooperation, the Bank has strengthened its cooperation with the strategic investor BBVA in corporate banking, retail banking, capital market, risk management, information technology and talents exchange program.

Investment Banking: The Bank actively promoted the cooperation in project financing and cross border M & A to expand business scope and market influence of both parties. **International Business:** The Bank and BBVA shared client resources. The Bank has achieved a significant

breakthrough in developing trade financing products and government loans. BBVA has allowed the Bank a gradual access to its branch network in Latin Americas. Retail Banking: Cooperative efforts target areas include private banking, wealth management and auto financing. Treasury and Capital Market: The two parties have fostered their cooperation in products and marketing. The realization of sharing operation system and marketing network ensured the delivery of more comprehensive services. Risk Management: The Bank has cooperated with BBVA in implementing Basel New Capital Accord, BBVA participated in making the 5-year project scheme and sent experts for the development of its sub-projects. Information Technology: The Bank has studied the private banking and auto financing information system of BBVA to prepare for setting up its own system. Human Resources: Hundreds of staff of BBVA and the Bank attended info exchange sessions.

(VII) Distribution Channels

Branch Network

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

By the end of 2007, the branch institutions and outlets of the Bank has reached 485 including 28 tier one branches, 17 tier two branches, 439 in-city branches and one finance company. In 2007 the Bank established 3 tier one branches and 1 tier two branch in Bohai Rim and the mid-west areas with geographical focus on the comparatively developed area such as the Yangtze River Delta, Pearl River Delta and West Strait and Bohai Rim. It established 40 sub-branches in those areas. In addition, the Bank's Nanning Branch has received the business liscence approval from China Banking Regulatory Commission.

Self-Service Banking Centers and Self-Service Facilities

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

Electronic Banking

Internet Banking

The Bank had made tremendous progress in improving the customers' convenience and satisfaction and raised technology replacement ratio to realize low-cost expansion in Internet banking business. The Internet banking system has been constantly optimized and is now upgraded to version 5.0, which added new function modules such as electronic bill payment,

third-party depository business and electronic account reconciliation, and has expanded the service scope of Internet banking. Retail Internet banking services have been further enriched and optimized to the system and transaction functionality with an focus on the enhanced functionality in investment wealth management to elevate the convenience and efficiency in payment and transfer. All the functions add up to 181 types of 9 categories, moving towards the leading position among peers. The Internet banking services of the Bank won the “Chinese Internet Banking business development Prize” awarded by Chinese Financial Certification Authority.

In 2007 the Bank has had 24,095 corporate internet bank clients and 625,042 individual internet bank clients, an increase of 114% and 342% respective from the previous year; the corporate Internet banking transaction amounted to RMB3453.7 billion, an increase of 547% from the previous year and the retail Internet banking transaction amounted to RMB21.6 billion, an increase of 813% from the previous year.

Telephone Banking

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

(VIII)Information Technology

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

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

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

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

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

(IX) Human Resources Management

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

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

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

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

Training and development of human resources

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

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

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

4. Risk Management

(I) Risk Management System

In 2007, the Bank continued to seek to establish an independent, comprehensive and dedicated risk management system with a vertical reporting line and develop a risk management culture emphasizing maximizing risk-adjusted returns. To this end, we implemented a risk management strategy focusing on “high quality industries and high quality enterprises” and “mainstream markets and mainstream customers” and seek to proactively manage risks in different areas such as credit, liquidity, market, and operational risks.

(II) Credit Risk Management

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

Risk Management for Corporate Loans

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

- Credit Extension Policy

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

— The Bank timely adjusted the credit extension policy to the “Double-high” industries² according to the change of macro economic trends, and tightened the credit extension by raising standards in environmental protection, technological standard and production capacity.

- The Bank adjusted credit authorization limits. The consignment loan business was included in the general risk management; credit line limit management was applied to group clients; the credit extension business for securities companies or their affiliated companies (including low risk services), the credit guaranteed by securities companies or their affiliated companies (including low risk services), and the various credit extension used for investing in securities were all treated as high-risk business and were submitted to the headquarters level for approval.
- Credit risk management for project loan and mid-long term loans was strengthened and the rights to approve project financing was withdrawn from branches of the Bank.
- Classification of small enterprises and small clients were unified, and classification for small clients at the non-experimental branches was cancelled, and a third batch of experimental branches were granted the credit extension limits authorization for small enterprises.

2 “Double-high” industries refer to industries with high-energy consumption and high pollution.

- Credit Structure

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

- Accelerating the pace to withdraw from high-risk clients whose business were adversely affected by the economic fluctuation and macroeconomic control;
- Timely withdrawing from the clients whose business was under the risk of industry policy, environmental protection policy or approval policy of the government;
- Strictly controlling the credit extension to the clients with government background and prohibiting the extension of any packaged loans;
- Strictly controlling credit extension to enterprises with “Two Ends Out”³ and supporting export enterprises prudently caution;
- Strictly controlling credit extension to clients with substantial investments in stock market, especially the clients with high risk exposure in speculating in the stock market.

3 Enterprises with “two ends out” refer to the manufacturing enterprises with imported raw materials and exported finished products.

- Risk Management System

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

- A dedicated credit approval group was established for credit approval in five categories of industries, namely the heavy industry, light industry, communications and energy industry, real estate industry and innovation products and financial industry relating to 30 subcategories, which replaced past credit approval model based on geographical districts, the new arrangement resulted in further improvement of efficiency and quality of credit approval.
- Risk Management Technology
 - Corporate client credit risk rating system. On 30 June 2007, the corporate client credit risk rating system collaboratively developed by the Bank and Moody's Corporation was successfully implemented within the Bank. The main part of the system includes 21 scoring cards and one PD measuring pattern. The system was designed according to the requirement of the New Basel Capital Accord, which satisfied the requirements of CBRC for the first batch of enterprises to implement the New Basel Capital Accord in aspects of technological level, rating coverage and observing and testing time. The technological level of the system took leading position among the domestic peers. Currently, the corporate client rating system began to function throughout the Bank in client selection, product design, single transaction decision-making, credit approval authorization, and product pricing and performance evaluation. Besides, the Bank launched cooperation project with BBVA in implementing the New Basel Capital Accord, with the aim to become one of the first domestic commercial banks to implement the New Basel Capital Accord.
 - Credit management system. The Bank expedited the full application of the credit management system. Such system solved three major problems: First, the sharing of corporate credit granting information; second, the control of corporate credit granting procedure; third, the efficiency of corporate credit granting operation. In addition, the system provided a basic platform for a series of management systems that already functioned or still in development, including portfolio management, assets and liability management, fund transfer pricing and internal rating, indicating a new stage for the risk management technology of the Bank.

Credit Management for Small Enterprises Loan

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

- Focusing on important areas, including Yangtze River Delta, Pearl River Delta, and Bohai Rim Three Regions as major geographical targets for credit extension, for these areas have more economic vitality, more active business activities, higher credibility of the clients, and better risk management ability of our branches in these areas.
- Raising thresholds for our clients, we gave preferential treatment to small enterprises with sound growth potential, including enterprises with strong cash flow, enterprises that have business cooperation with leading companies and enterprises with core-technology advantage and had steady development.

- Strengthening the provision of securities, including mortgages, pledges or guarantees to secure the payment of loans. Emphasis was made on the cooperation with guarantee companies within the credit extension regions and the adoption of collateral guarantee by enterprises to control credit risk.
- Increasing the frequency of post credit inspection, the Bank would apply early-warning mechanism to the borrowers who were likely to default with an aim to promptly eliminate risk.
- Strengthening the dynamic management of customers, enhancing evaluation of small-enterprise customers' comprehensive profit and risks, constantly improving the small-enterprise customer structure by implementing customer exit mechanism.

Mortgage Loan Risk Management

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

- Strictly enforcing the state policies on real estate, supporting real estate projects which were in compliance with laws and regulation.
- Strictly following the threshold criteria for providing credit to real estate developers, adhering to the credit issuing threshold policy of “premium developers, quality properties,” issuing credit to those developers with rich industry experience or with experienced shareholders, with steady operation, in compliance with the law, with low liability ratio, sound credit, and supporting those commercial residential projects with sound sales prospects.
- Exercising caution in issuing credit to those developers with vast land reserve, large-scale projects under construction, and large house inventory, strictly avoiding the capital chain breaking risk of these developers, strictly controlling land reserve loans.
- Strengthening the management of mortgage loans, avoiding fake mortgage, tightening the criteria issuing for personal loan, increasing down payment and interest rate for those who buy more than one property, paying attention to the borrower's credit record and the primary repayment source, putting special emphasis on preventing fake mortgage.

Risk Management for Personal Loan

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

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

- The Bank strengthened its ability of controlling and monitoring retail banking risks, and applied post credit inspection to important clients to detect the risk and established the risk reporting system.
- The Bank monitored the newly extended personal loans on quarterly basis, and carried out audit, inspection and control over the quality of retail assets, five-category clarification, recovery of non-performing loans, critical recovery items on monthly basis, and made monthly enquiry on branches with new amount of non-performing loans exceeding RMB3 million.
- The Bank initiated a retail bank assessment program under the Basel New Capital Accord, and established a scientific personal credit rating system.

Credit Card Risk Management

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

- The risk management institutions at all level and individuals managing credit card approval, credit limit adjustment and authorization were hierarchically authorized to control risks based on the principle of “hierarchical management and credit authorization limits control” so as to effectively control internal risks.
- Tightening the client selection criteria to guide the accurate positioning in field sales so as to secure excellent clients.
- An overall risk management was conducted by combining the headquarters’ external audit on card center, and its business departments with the internal audit within each business department.
- The Bank abided by the requirements of the Basel New Capital Accord to develop the risk quantitative technology including all kinds of scorecards which will be implemented in 2008.

Treasury Business Risk Management

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

- Despite the domestic macro-economic control policy and the outbreak of U.S sub-prime mortgage loan Crisis (*Sub-prime Crisis*), the Bank conducted securities investment and commission business on a sound and prudent basis. Regarding bonds investment and commission business denominated in Renminbi, the Bank took “high quality industries and high quality enterprises” with high credit rating as major investment objective and target clients. Regarding the foreign currency security investment, the Bank adjusted its credit investment and optimized the portfolio of foreign currency assets, to lower the negative influence on the security of the Bank’s assets.
- The Bank strictly complied with the annual credit line policy formulated by Credit Risk Management Committee of head office, and has constructed an investment consultation team consisting of the dealers, strategy analysts and risk managers to select trading and investment objectives, the Bank have combined a top-down and bottom-up mechanism for decision-making process. Meanwhile, the Bank applied post-evaluation system and carried out periodic assessment and improvement on the operative efficiency of investment decision-making.
- During the U.S. Sub-prime Crisis, the Bank further enhanced the monitoring and reporting mechanism for market condition and also established an emergency mechanism, which promoted the efficiency of operation during the crisis.

Management of Non-performing Loans

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

(III)Market Risk Management

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

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

Interest Rate Risk Management

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

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

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

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

Analysis on interest rate gap:

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

Exchange Rate Risk Management

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

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

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

Analysis on Foreign Exchange Exposure

	US\$	HK\$	others	Total
Net positions in balance sheet	<u>23,896</u>	<u>(1,235)</u>	<u>668</u>	<u>23,329</u>
Net positions off balance sheet	<u>(17,052)</u>	<u>1,247</u>	<u>(905)</u>	<u>(16,710)</u>
Total	<u>6,844</u>	<u>12</u>	<u>(237)</u>	<u>6,619</u>

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

(IV) Management of Liquidity Risks

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

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

The Bank formulates indicators for liquidity management every year. The indicators include, but are not limited to liquidity ratio, deposits-loans ratio, and cash reserve ratio. The Bank also dynamically adjusted the current assets portfolio according to the changes of market environment. Meanwhile, The Bank periodically conducted pressure test, scenario analysis and analysis report and also identified, quantified and monitored liquidity risks by using duration gap analysis. During the reporting period, The Bank enhanced the function of economic lever in adjustment of its capital, made use of its interest policy and directed the branches of the Bank to put emphasis on the effect of funds management, so as to further improve the intensification and precision of liquidity management.

Owing to the effect of the central bank's tightened monetary policy and heated stock and fund market, the fluctuation and uncertainty of current capital volume keep growing during the reporting period. The RMB liquidity management of the Bank has withstood the test of market, and obtained relatively good management profit with the precondition of ensuring the liquidity safety. On the aspect of portfolio management, the Bank managed to keep the diversification of current assets, including some short-term assets with higher liquidity such as saving deposit in the central bank and bills issued by the central bank, short-term government bond, financial bonds, inter-bank lending/borrowing and repurchase, and maintain appropriate proportion of discount bills assets; At the same time, the Bank properly arranged the structure of capital duration, and shortened the security investment portfolio duration. On the aspect of liabilities, the Bank strengthened the clients marketing, kept the stability of liabilities, and maintains various channels to liabilities, such as opening market, monetary market, and notes market. In 2007, the Bank's ability to prevent liquidity risks has been further strengthened through the enhancement of dynamic judgment of liquidity management plans and investment portfolios.

(V) Internal Control and Operational Risk Management

Internal Control

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

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

- Completely arranging and optimizing the regulations and laws, including the formulation of business practice guidance and the establishment of the standardized operation procedures, and formulating the laws and regulations covering all the major business procedures, financial management, audit accounting and disclosure of information. The Bank took measures to fix the responsibilities in respect of internal control of every department and every post and improve the checks and balance systems for different posts, such as separation of contradicting posts, compulsory furlough, rotation of posts, service term economic responsibility audit.
- Establishing an internal capital assessing procedures and capital goal corresponding with the characteristics, scale, risk and business complexity, among which, credit risk was measured and reported according to the standard methods set by China Banking Regulatory Commission; the status of market risks and currency position should be monitored and reported according to standard methods every quarter; Management on operational risk facilitated the work in all aspects.
 - Fully using the information system for clients that shall be specially focused on and credit management system and credit system of PBOC and enhancing special supervision and control over industry, enterprises, products and regions and recognizing the exposure of large-volume capital risk and centralization of risks, so that, the centralization of loans continuously decreased.
 - Designing corporation client rating system according to the requirement of Basel New Capital Accord. The rating system has connected the credit rating of a client with the probability of default, so as to cover all the corporate clients besides financial institutions. The corporate client rating system has reached the requirements issued by China Banking Regulatory Commission for the first batch of banks implementing Basel New Capital Accord in terms of technical level, coverage of rating, and duration of observation and testing.
 - Strengthening the management of market risks and periodically carrying out pressure test on the interest rate risks of treasury products and bank accounts, and estimating the effect of market parameters on interest margin income and market capital of assets.
- Strengthening the examination and monitoring of internal control and constructing an independent and objective internal audit system and enriching the strength of internal audit. The audit staff accounts for about 1.2% of the total number of employees of the Bank. The Bank increased the frequency and coverage of internal examination and established a database for the problems found during examinations and strengthened the implement of remedial measures, so that the repeated occurrence of non-compliance has been effectively avoided and ensure the effective implement of internal control system.
- Improving the responsibility investigation system and completing the procedures of investigating responsibility and enhancing the investigation and punishment on violators who breach the laws and regulations and periodically circulating notices of criticism and warns to the whole bank. A system that breach of laws must be corrected and mistake must be punished has been formulated.

Internal Audit

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

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

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

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

Operational Risk

In 2007, the Bank developed the new bank-enterprise electronic account system, established management methods of the new bank-enterprise electronic reconciliation system and implemented throughout the Bank to improve the timeliness, completeness and effectiveness of the Bank-enterprise reconciliation; The accounting for asset business was able to be conducted in branches of the Bank; the concentration of accounting work was fully launched. While endeavoring to build operational risk prevention system and mechanism, the Bank continued to conduct general inspection and special inspection on accounting counter business to strengthen the risk prevention basis. The Bank also actively put the Guidelines on the Operational Risk Management of Commercial Banks issued by China Banking Regulatory Commission into practice to set up detailed operational rules endeavoring to build an operational risk management system fitting for the actual situation of the Bank so as to strictly prevent the operational risks.

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

(VI) Capital Management

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

- **Management of Capital Adequacy Ratio**

The Bank calculated and disclosed our capital adequacy ratio strictly according to regulatory requirements and monitored the market risk position and reported to CBRC quarterly.

- **Management of Economic Capital**

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

- **Capital Financing Management**

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

5. Outlook

- ***Domestic and International Macro-economic Trends***

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

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

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

- ***Changes in the Competition Environment***

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

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

- ***New opportunities driven by Market Demands***

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

- ***The Bank's Development Plan 2008***

Operation Plan:

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

Development Plan:

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

its resource allocation. The profit evaluation system will be fully implemented, and the FTP examination will be introduced, so as to establish an assessment system that covers efficiency, quality and scale, and to facilitate the development of the different Business Lines in the Bank's branches.

6. Public Welfare Establishments

Donation to the Impoverished

The Bank donated in total RMB1.5 million to people in impoverished areas through its supporting in Impoverished Villages project. The Bank offered effective support in improving the production and living conditions of the villages in poverty-ridden counties and promoting agricultural production modernization.

Donation to Charities

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

Campaigns in promoting education

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

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

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

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

The Bank participated in the campaign "To carry on the Culture and Love" activity initiated by *Shanghai Morning Post*, and donated on 3 December 2007 (the "International Day of Disabled Persons") the 2008 subscription of *Shanghai Morning Post* to 240 charitable schools with participants of the Special Olympic Games and physically-challenged students.

Campaigns in promoting financial service sports events

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

Changes in Share Capital and Shareholding of the Substantial Shareholders

(I) Changes in shares

		Before the change		Increase/decrease (+,-)				After the change	
		Number (10,000 shares)	Percentage	New shares issued	Bonus shares	Shares converted from reserves	Others	Subtotal	Number (10,000 shares) Percentage
I.	Restricted shares:	3,111,311.14	100%	296,197.07			-119,448.17	174,708.4	3,286,019.54 84.18%
	1. Shares held by the state	.00							.00
	2. Shares held by state-owned entities	2,639,420.22	84.83%	72,201.5			-206,459.33	-134,257.93	2,505,162.29 64.18%
	3. Shares held by other domestic investors								
	Including:	.00		63,305.17				-63,305.17	
	Shares held by domestic non-state-owned legal entities	.00		63,305.17				-63,305.17	
	Shares held by domestic natural persons	.00							.00
	4. Shares held by foreign investors Including:	471,890.92	15.17%	158,690.0			150,276.33	308,966.33	780,857.25 20.00%
	Shares held by foreign legal entities	471,890.92	15.17%	158,690.0			150,276.33	308,966.33	780,857.25 20.00%
	Shares held by foreign natural persons	.00							.00
II.	Non-restricted Shares	.00		497,826.7			119,488.17	617,314.87	617,314.87 15.82%
	1. RMB-dominated ordinary shares	.00		115,164.3			63,305.17	178,469.47	178,469.5 4.57%
	2. Domestically-listed foreign shares	.00							.00
	3. Overseas listed foreign shares	.00		382,662.4			56,183	438,845.4	438,845.4 11.25%
	4. Others	.00							.00
III.	Total	3,111,311.14	100%						3,903,334.41 100%

- Upon the in-principle consent of the State Council, and the approval of the *Reply of the Ministry of Finance on the Plan for the Administration of State-owned Shares of CITIC Bank* (Cai Jin [2006] No. 121) and the *Reply of the China Banking Regulatory Commission on Issues Concerning the Reconstruction of CITIC Bank into a Joint-stock Corporate* (Yin Jian Fu [2006] No. 455), CITIC Group and CITIC International Financial Holdings Limited ("CIFH"), as sponsors, reconstructed the Bank into China CITIC Bank Corporation Limited. The joint-stock corporate was

established on 31 December 2006, with total shares of 31,113,111,400, including 26,394,202,200 shares held by CITIC Group, representing 84.83% of the total, and 4,718,909,200 shares held by CIFIH, representing 15.17% of the total. CIFIH also entered into a top-up agreement with the Bank and CITIC Group on 22 November 2006, under which CIFIH agreed to acquire further H shares of the Bank.

2. CITIC Group transferred its 1,502,763,281 shares of the Bank to foreign strategic investor BBVA, on 1 March 2007. After the completion of this transfer, shares of the Bank held by CITIC Group, CIFIH and BBVA were 24,891,438,919, 4,718,909,200 and 1,502,763,281 respectively. This represents 80.00%, 15.17% and 4.83%, respectively of issued shares before the listing of the Bank.
3. The Bank was listed concurrently on the Shanghai Stock Exchange and the Hong Kong Stock Exchange on 27 April 2007. The over-allotment option of H shares was fully exercised on 10 May 2007. The Bank issued 2,301,932,654 A shares and 5,618,300,000 H shares (including the state-owned shares that CITIC Group transferred to the National Council for Social Security Fund and the anti-dilution right and the top-up right exercised respectively by BBVA and CIFIH). After completion of the initial public offering, the Bank had 39,033,344,054 shares in total, comprising 26,631,541,573 A shares and 12,401,802,481 H shares.
4. The Bank allotted 517,238,000 of A shares to Strategic Investors at the time of the listing in April 2007. At the end of report period, these allotted A shares were still restricted from trading in stock market due to 12-month lock-up period restriction. However, since the Bank could not identify, one by one, the identities of these shareholders holding the A shares, we were only informed from public available sources that these 20 strategic investors were all state-owned enterprises. Therefore, these allotted A shares have been temporarily listed into the column titled “Shares subject to restrictions on sale-Shares held by state-owned entities” in the above table.
5. In April, 2007, the Bank allotted 633,051,654 A shares to off-line subscribers at the time of the public listing. At the end of the report period, these allotted A shares were no longer restrained by the three months lock-up period and could be traded on the stock market.
6. The Bank allotted 273,036,000 H shares to 5 cornerstone investors at the time of the listing in April 2007. At the end of this report period, these allotted H shares were still restricted from trading in the stock market due to the 12-month lock-up period restriction. Among which, the shares held by PRC National Council for Social Security Fund, PICC, China Life Insurance (Group), and China Life Insurance Co., Ltd are State-owned shares.

(II) Changes in the restricted shares

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

1. CITIC Group undertakes that within 36 months from the listing date of the Bank's A shares on the Shanghai Stock Exchange, it will not transfer or entrust others to manage the shares directly or indirectly held by it in CITIC Bank, nor will it offer A shares to CITIC Bank for purchase. If CITIC Group obtains the consent of CSRC or other securities regulatory agency authorized by the State Council to convert its A shares in the Bank into H shares, the converted H shares will not be subject to the 36-month locked-up period.
2. CIFH undertakes that within a year from the listing date of the Bank, it will not transfer or entrust others to manage the shares directly or indirectly held by it in CITIC Bank, nor will it offer shares to CITIC Bank for purchase.
3. BBVA undertakes not to transfer the shares it purchased in the initial closings (1 March 2007), and any shares it purchased based on call options prior to the third anniversary of date of the purchase of the related shares. The additional shares BBVA holds according to Anti-dilution Provision cannot be transferred before the first anniversary of the listing date.
4. The four cornerstone investors of H shares undertakes not to sell any H shares purchased pursuant to the placing agreement directly or indirectly within the lock-up period or 12 months after the listing date unless they obtain a prior written consent from the Bank and joint Global Coordinators.
5. The lock-up period of 20 A shares strategic investors is 12 months following the listing date.
6. The lock-up period of off-line subscribers of strategic investors of A shares is 3 months following the listing date.

(III)Securities Issuing and Listing

Information on share issuing and listing

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

On 31 December 2006, CITIC Group and CIFH, set up China CITIC Bank Corporation Limited as promoters by reorganization. Upon the establishment, the registered capital of the Bank was RMB311,131.114 billion. CITIC Group held 26,394,292.2 thousand shares of the Bank, accounting for 84.83% of the total shares of the Bank; CIFH held 4,718,909.2 thousand shares of the Bank, accounting for 15.17% of the total shares of the Bank.

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

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

Subordinated debts

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

The subordinated debts issued in 2004 include four batches that will mature during June, 2010 and September, 2010, among which the interest rate of the third batch will be calculated by plusing the interest spreads of 2.72% with 1-year term deposit interest rate of PBOC, and the rest will be calculated by plusing the interest spreads of 2.6% with 1-year term deposit interest rate of PBOC.

The subordinated bonds issued in 2006 include two types. One is the subordinated bonds with the face value of RMB2 billion, which will reach its maturity in June, 2021 with the interest rate of 4.12%. The Bank has option to redeem on June 22, 2016. If the Bank does not exercise the redemption option in advance, then during 5 years since June 2016, the face annual rate will increase to 7.12%. The other is the subordinated bonds with the face value of RMB4 billion, which will reach its maturity in June, 2016 with the rate of 3.75%. The Bank has option to redeem on June 22, 2011. If the Bank does not exercise the redemption option in advance, then during 5 years since June 2011, the face annual interest rate will increase to 6.75%.

Internal employee shares

There are no internal employee shares issued by the Bank.

(IV) Information of shareholders

Top 10 Shareholders and Their Respective Shareholdings

Total Shareholders

By the end of the report period, total number of shareholders of the Bank was 625,984, including 579,115 A share holders and 46,869 H share holders.

Shareholdings of the top 10 shareholders of the Bank (The number of shares held by H share shareholders are based on the records at the Registrar.)

Total number of shareholders: 625,984	including 579,115 A shares holders and 46,869 H shares holders
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Shareholdings of the top 10 shareholders of the Bank

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

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

Shareholding of the Top 10 non-restricted shareholders

No.	Name of Shareholder	Non-restricted Shares	Type of shares
1	Hong Kong Securities Clearing Corporate (Nominees) Limited	4,845,812,000	H Share
2	Bank of Communications — Efunds 50 index securities investment funds	16,499,860	A Share
3	Shanghai Automotive Group Finance Co., Ltd.	10,954,916	A Share
4	China Marine Finance Co., Ltd.	10,954,916	A Share
5	Bank of China — Jiashi Shanghai-Shenzhen 300 Index Securities Investment Fund	9,688,697	A Share
6	China Construction Bank — Boshi Yufu Securities Investment Fund	7,185,169	A Share
7	Shanghai Electric Group Finance Co., Ltd.	7,000,000	A Share
8	Minmetals Finance Corporate. Limited	7,000,000	A Share
9	China Life Insurance Co., Ltd — traditional — general insurance products — 005L-CT001Shanghai	6,112,949	A Share
10	Guo Yi	4,588,800	A Share

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

Interests of Substantial Shareholders

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

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

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

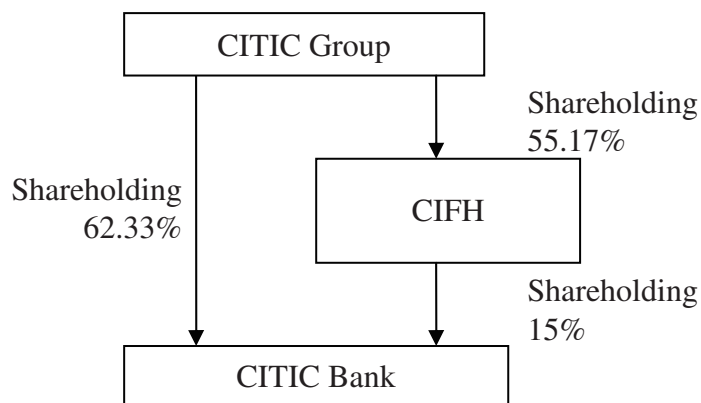
Controlling Shareholders and real controller of the Bank

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

The registered office and place of business of CITIC Group are located in Beijing. CITIC Group, with the initiation and approval by Deng Xiaoping, the chief architect of China's reform and opening-up and the State Council, was established in October 1979 by Rong Yiren, former Vice Chairman of PRC as the first window corporate. After several capital changes, by the time of 31 December 2006, the registered capital of CITIC Group was RMB30 billion, and its legal representative was Mr. Kong Dan. CITIC Group is a large-scale leading multinational state-owned enterprise in China, whose investment focuses on industries such as financial service, information technology, energy sources and heavy industry. At present, it has business presences in Hong Kong, America, Canada and Australia.

There were no change of the shareholders and real controlling parties of the Bank during the report period.

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



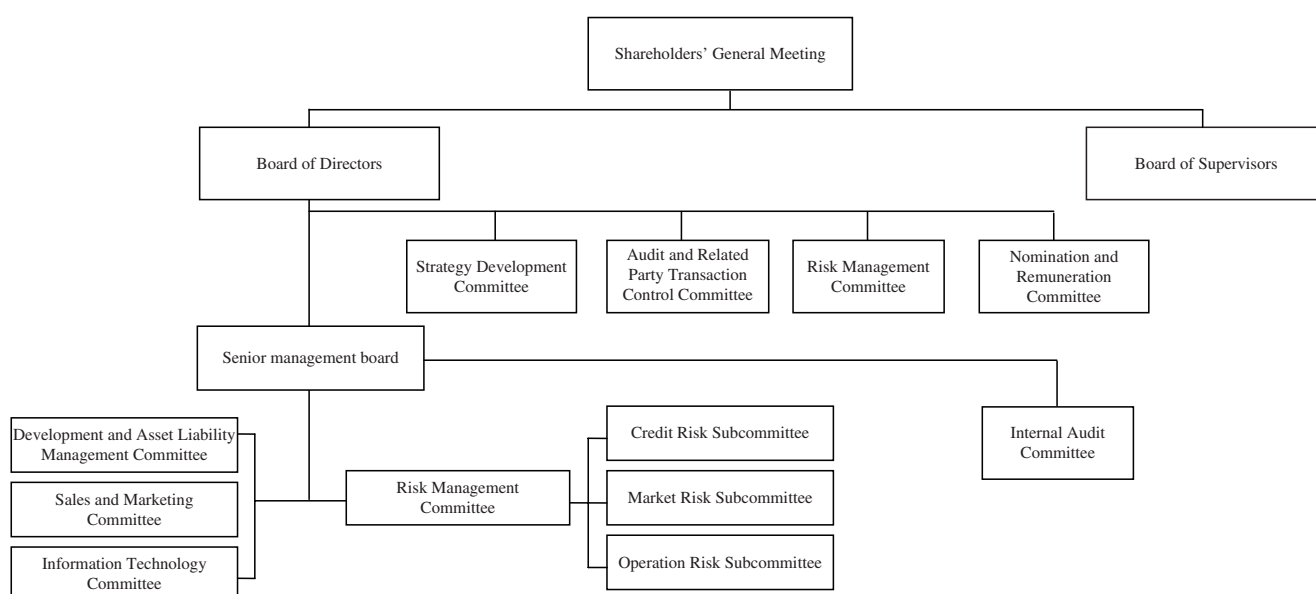
Other shareholder holding more than 10% shares (excluding Hong Kong Securities Clearing Company Nominees Limited) of the Bank

CIFIH holds 15% shares of the Bank.

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

Report of Corporate Governance

The Corporate Governance Structure of the Bank



1. Overall Corporate Governance

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

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

Within the report period, the Bank has strictly complied with laws and regulations and taking into account the practicalities of the Bank in improving its corporate governance:

1. Systems of independent directors and external supervisors have been set up to guarantee an independent operation and effective check and balance for all corporate organizations.
2. Special committees of Board of Directors have been set up and rules of procedure for each special committee have been formulated to promote the decision-making mechanisms of Board of Directors.
3. Detailed Working Handbook for the President of the Bank has been formulated and improved, which has established a distinct responsibilities for corporate bodies and set up a clear reporting procedure and information communication mechanism.
4. The internal control system has been further optimized, while the measures, including further strengthening the supervision of the enforcement of internal control, further enhancing the enforceability of internal control of basic tiers of the Bank, have been improved to achieve such end in accordance with general principles of a comprehensive, prudent, effective and independent internal control, which have in turn promoted a healthy, stable and safe operations of the Bank's business.
5. The Regulatory Measures on Information Disclosure of China CITIC Bank was formulated and enacted after taking into account the regulatory requirements of both Shanghai Stock Exchange and Hong Kong Stock Exchange, the Measures have specified a working system including contact person and dedicated teams for information disclosure, and have established effective communication channels for the report of important information among the headquarter and branches of the Company, to ensure prompt, accurate and complete disclosure of information of the Bank to safeguard the interests of domestic and overseas shareholder.

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

2. Information of Shareholders' Meeting, Board of Directors and Board of Supervisors

In 2007, the Bank convened one Shareholders' Meeting, three interim Shareholders' Meetings, eleven Board of Directors meetings and three Board of Supervisors meetings, all following the procedures set out in the Bank's articles of association.

(1) Shareholders' Meeting

The Shareholder's Meeting is the highest authority within the Bank. The Bank establishes an effective channel to communicate with shareholders, to ensure that all shareholders are treated equally, are properly informed and are able to participate in and exercise their voting and other rights on major issues of the Bank as shareholders. In 2007, the Bank held 2006 annual Shareholders' Meeting and 3 interim Shareholders' Meetings of the Bank and passed 15 resolutions. The Shareholders' Meetings decided upon significant matters of the Bank according to law, and discussed and passed resolutions on such issues as distributing dividends before listing and plan for distributing dividends after listing, the plan for listing, introducing strategic investors, amending the articles of association, and electing directors and supervisors, engaging external auditor and deciding the auditor's fee, deciding upon the allowances of the independent directors and external supervisors and so on, In doing so, the Shareholders' Meetings managed to safeguard the rights and interests of the shareholders, and ensured the shareholders could exercise their rights and powers in accordance with law, which has significant influence on the long-term, sound and sustainable development of the Bank.

(2) Board of Directors

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

In 2007, the Board of Directors of the Bank held 11 meetings in total (including meetings by correspondence), on which 38 resolutions were passed, including amending Articles of Association, plan for listing, introduction of strategic investors, election of additional directors, appointment of chairman and members of special committees of the Board of Directors, appointment of senior management and Board of Directors secretary, approving the rules of procedure of each special committee, deciding upon the establishment of new branch, supervisor responsibility insurance and allowance proposal, appointment

of external auditor and auditing expense, employees salary proposal and so on. Besides, Board of Directors also reviewed working reports of senior management regarding the management of the Bank. Attendance rates of directors of the Bank are as follow:

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

1. According to the Articles of Association of the Bank, directors can entrust other directors to attend board meetings and exercise voting rights by proxy.
2. Mr. Wang Chuan didn't attend the Board Meeting in person on 8 March 2007, he entrusted another director to attend the meeting and exercise voting rights by proxy.
3. Mr. Dou Jianzhong didn't attend the Board Meeting in person on 22 November 2007, he entrusted another director to attend the meeting and exercise voting rights by proxy.
4. Ms. Chan Hui Dor Lam Doreen didn't attend the Board Meeting in person on 8 March 2007 and 22 November 2007, she entrusted other directors to attend the meeting and exercise voting rights by proxy.
5. Mr. Bai Chong-En didn't attend the Board Meeting in person on 22 November 2007, he entrusted another director to attend the meeting and exercise voting rights by proxy.

(3) Special committees of Board of Directors

There are 4 special committees under the Board of Directors of the Bank, Strategy Development Committee, Audit and Related Party Transaction Control Committee, Risk Management Committee and Nomination and Remuneration Committee. In March 2007, the Board of Directors appointed special committee chairman and members of the Board of Directors.

a. Strategy Development Committee

The Bank's Strategy Development Committee comprises 6 directors, Mr. Chang Zhenming, Mr. Wang Chuan, Mr. Chen Xiaoxian, Mr. Dou Jianzhong, Mr. Zhang Jijing and Mr. José Ignacio Goirigolzarri. Mr. Chang Zhenming was appointed

the chairman of the Strategy Development Committee. The committee's major responsibilities are to formulate and appraise the Bank's business targets and long-term development strategies business and organization development plans, main investment and financing plans of the Bank and other important matters that would affect the Bank's development. The Committee has been authorized by the Board of Directors to supervise, and conduct tests on, the execution of annual business and investment plans, as well as to put forward suggestions to the Board.

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

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

b. Audit and Related Party Transaction Control Committee

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

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

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

1. Mr. Ju Weimin didn't attend the Board Meeting in person on 25 October 2007, he entrusted another director to attend the meeting and exercise voting rights by proxy.
2. Mr. Xie Rong didn't attend the Board Meeting in person on 25 October 2007 and 27 November 2007, he entrusted other directors to attend the meeting and exercise voting rights by proxy.

As per the requirements of CSRC and its authority entrusted by the Company, the Audit & Related Party Transaction Control Committee has fully exercised its supervising function to ensure the independence of auditing. After reviewing the financial and accounting report of the Bank, the Committee believed that the report was relatively complete and suggested to submit it to the certified accountants for audit. And then, based on preliminary feedbacks from the certified accountants, the Committee made a second-round review of the report, and consented that the report authentically, accurately and completely reflected the financial conditions of the Bank. During the review period, the Committee kept communicating with domestic and international accounting firms, to ensure their timely submission of high quality audited reports.

On Mar 21, at the seventh session of the Committee, the Committee members listened to the summary report regarding audit work for the Bank's 2007 audit report delivered by the accounting firm, and after reviewing and discussion, suggested to submit the report to the Board of Directors for approval. The Committee also reviewed the proposal on appointment of accounting firms in year 2008, and recommended the Bank to engage KPMG Huanzhen and KPMG respectively as its domestic and international auditors for the year 2008.

c. Risk Management Committee

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

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

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

d. Nomination and Remuneration Committee

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

In 2007, Nomination and Remuneration Committee held 4 meetings in total, proposals such as Rules of Procedure of the Committee, allowance proposals for independent directors and external supervisors, and proposals for employees' annual remuneration management were discussed and approved. Attendance rates of related directors at the meeting are as follow:

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

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

As per the requirements of CSRC and its authority entrusted by the Company, the Nomination and Remuneration Committee reviewed the Bank's 2007 Annual Report, with respect to the compensation disclosure of the directors, the supervisors and the senior management. The Committee is of the view that in the year 2007, as authorized by the Board of Directors and guided by the Board of Supervisors, the Bank's management has fulfilled its duty and helped increase the value of the Bank and for its shareholders. The Committee believed that the Bank's disclosure on the compensation of the directors (those compensated by the Bank), independent directors, supervisors (those compensated by the Bank), exterior supervisors and senior management was in compliance with relevant rules and regulations, without breaching any domestic or international disclosure requirements applicable to the Bank. The Committee confirmed that no equity incentive plan was executed during the disclosure period by the end of 2007.

(4) Board of Supervisors

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

In 2007, the Board of Supervisors of the Bank held 3 meetings; proposals such as annual work report of the Board of Supervisors and regular financial reports were discussed and approved. In addition, the Board of Supervisors supervised and examined the Bank's operations and management by attending Board of Directors meetings, convening meetings, considering various documents and receiving reports from management and making field study in some of the branches.

(5) Senior Management

Senior management is the executive institution of the Bank and has responsibility toward the Board of Directors. The Bank's senior management is composed of 10 members, including the president, 6 vice presidents (including vice-president level), 2 assistant presidents and a secretary of the Board. There is strict delineation between the respective responsibilities and powers of the Bank's senior management and the Board of Directors. The Board of Directors determines their respective scope of authority for operational management and decision-making. The Board of Directors also appraises the performance of senior management, and uses this as the basis for determining their remuneration and other incentive arrangements. The Bank has adopted an annual salary system for senior management, comprising basic annual salary and performance-based annual salary. Senior management's salaries are determined according to the extent of completion of the annual business plan and their work performance.

3. Special inspection on corporate governance

During the report period, the bank conducted self-inspection on corporate governance, based on CSRC's *Notice on Special Inspection of Corporate Governance in Listed Companies* as well as specific assignments from Beijing Securities Regulatory Bureau. As a result of the self-inspection, the Bank worked out a Report of the Bank on Self-Inspection of Corporate Governance, which was approved by the 8th session of the Bank's Board of Directors. The Bank also distributed the Announcement of the Bank on Extensive Opinion Solicitation on Corporate Governance in order to seek opinions from the investors.

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

4. Internal Control

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

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

5. Responsibility Statement of Directors on Financial Reports

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

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

6. The Independence of Independent Non-executive Directors and their Performance

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

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

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

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

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

8. Statement of Independence from the Controlling Shareholders

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

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

From the perspective of personnel independence, the Bank has established independent personnel and remuneration management system. Except for the president of the bank who has also served as the executive director of CITIC Group and deputy general manager, director of CIFIH and director of CITIC Ka Wah Bank, other senior management have not served any positions in the controlling shareholders and its subsidiaries; the financial personnel have not served any positions in the controlling shareholders and its subsidiaries.

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

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

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

9. Compliance with the Codes of Corporate Governance Practices of the Listing Rules by Hong Kong Stock Exchange

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

The Bank has conducted an analysis between the requirements of the Codes of Corporate Governance Practices (the “CG Code”) as set out in Appendix 14 to the Listing Rules and the Bank’s internal rules and practices. The Bank has been in compliance with the code provisions except for the following deviation:

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

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

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

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

11. Appointment or Dismissal of External Auditors

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

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

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

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

12. Management of Investor Relations

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

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

- ***System Building***

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

- ***Management Team***

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

- ***Comprehensive Communication Platform***

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

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

13. Information Disclosure

The Bank disclosed its information in compliance with the securities regulatory requirements of the places of listing and trading of the Bank's securities to publish various regular reports and announcements to ensure the disclosure of information in a prompt, fair, accurate, authentic and complete manner, and to safeguard legitimate interests of investor and other parties concerned. Since the Bank has simultaneously listed its shares in Hong Kong Stock Exchange and Shanghai Stock Exchange, the Bank will make sure it applies the more stringent disclosure requirements of both the Stock Exchange to its disclosure of information to make sure even treatment of all investors are. In order to promote system building of information disclosure

and to further enhance the transparency of information disclosure, the Bank has enacted The Regulatory Measures on Information Disclosure of China CITIC Bank according to various securities regulatory requirements of the places of listing, which was passed by the Board of Directors and which defined the content, style, procedure, and management of information disclosure.

Significant Events

1. Particulars of A share and H share listing

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

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

2. Material Merger and Acquisition, Sales or Restructuring of Assets

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

3. Material Contract and Its Performance

During the report period, the Bank does not have material assets business with other companies to custody, contract or lease its assets, and does not entrust other companies to custody, contract or lease the Bank's assets.

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

**Independent directors' special description and independent
views on outbound security of
China CITIC Bank Corporation Limited**

As the Bank's independent directors, based on impartiality, fairness, and objectiveness, we inspected the Bank's outbound security and hereby present our special description and views as below:

Examination shows that the outbound security business of the Bank is primarily guarantee letter, which is normal banking business within the operating scope of the Bank's daily banking businesses approved by the PBOC and CBRC. As of 31 December 2007, the balance of the Bank's guarantee letter issued was RMB32.547 billion.

The Bank has been emphasizing its risk management. Based on the nature of risk of this business, the Bank formulated credit criteria for the applicants to be secured, and business process flow for security and approval procedure. During the report period, the business of the Bank was operated smoothly and on violation was found for irregular provision of securities. We are of the opinion that the Bank exercised effective control over its security business risks.

Independent Directors of the Bank

Bai Chongen, John D. Langlois, Wang Xiangfei, Ai Hongde, Xie Rong

4. Significant Related Party Transactions

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

At the end of the report period, the loan balance provided by the Bank to related parties was RMB2.797 billion, increased by 23.05% from that of the beginning of the year, accounting for 0.48% of the total loan amount of the Bank. The risk category of the loan granted to the related parties is rated as normal, the loan amount, categories and quality of which would not have material impact on the normal operation of the Company.

The following table sets forth the loans granted by the Bank to the shareholders holding 5% or more of the shares of the Bank:

Name of the shareholder	Shares held by the shareholder	<i>Unit: in millions of RMB</i>	
		loan balance at the end of December, 2007	loan balance at the end of December, 2006
CITIC Group	62.33%	380	540
CIFH	15.00%	0	0

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

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

5. Material Litigation and Arbitration

The Bank has been involved in several lawsuits during its daily operation. Most of these lawsuits are sought by the Bank to enforcing loan repayment. Besides, there are also lawsuits regarding disputes with clients. Up to 31 December 2007, the Bank was involved in 49 lawsuits with the disputed amount exceeding RMB30 million (either as plaintiff or defendant), with a total disputed amount of RMB2,490.3857 million; there are 40 unsettled lawsuits in which the Bank acted as defendants, with a total dispute amount of RMB218.772 million.

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

6. Shareholding in Other Companies

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

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

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

During the report period, neither the Bank, the Board of Directors, any Directors or Senior Management was subject to any investigations of relevant authorities, coercive measures of justice and discipline inspection departments, transfer to justice authorities or criminal liabilities, investigation, administrative punishment from the CSRC, banning the entry to securities markets, criticism by notice circulation, identification as inappropriate candidate, punishment by other administrative departments or was the subject of a public reprimand from any stock exchanges.

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

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

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

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

Except as stated above, the Bank or shareholders holding more than 5% shares in the Bank have not made undertakings that might have significant adverse influence on the business results and financial situation of the Bank.

9. Fulfillment of Profit Forecast

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

10. Dividends

The Board now recommends the payment of a cash dividend in the amount of approximately RMB2,088 million, a cash dividend (including tax) of RMB0.535 (dominated in RMB) will be declared for every 10 shares, payable in RMB for A share-shareholders and in HKD for H

share-shareholders. The actual profit distribution amount in HKD will be calculated based on the average benchmark rate for RMB to HKD announced by the PBOC one week (including the day of the general meeting) before the date of convening the general meeting. If approved, the dividend will be paid to shareholders whose names appear on the register of members of the Bank as at the end of business day 12 June 2008.

11. Closure of Register of Members

The Bank's register of members will be closed from Tuesday, 13 May 2008 to Thursday, 12 June 2008, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the cash dividend proposed for the year ended 31 December 2007, holders of H shares whose transfers have not been registered must deposit the transfer documents together with the relevant share certificates at the H Share registrar of the Bank, Computershare Hong Kong Investor Services Limited, at or before 4:30 p.m. on 8 May 2008. The address of Computershare Hong Kong Investor Services Limited is Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

12. Publication of Results Announcement and Annual Report

Both the Chinese and English versions of this results announcement are available on the websites of the Bank (www.bank.ecitic.com) and The Stock Exchange of Hong Kong Limited (www.hkex.com.hk). The Annual Report 2007 of the Bank containing all the information required by the Listing Rules will be published on the websites of the Stock Exchange of Hong Kong Limited (www.hkex.com.hk) and the Bank (www.bank.ecitic.com) in due course. In the event of any discrepancies in interpretations between the English version and Chinese versions, the Chinese version shall prevail. The Bank also prepared the financial statements in Chinese in accordance with the PRC GAAP, which is available on the websites of the Company (www.bank.ecitic.com) and Shanghai Stock Exchange (www.sse.com.cn).

Financial Report

Consolidated income statement

for the year ended 31 December 2007

(Expressed in millions of Renminbi unless otherwise stated)

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

Profit appropriations	28	<u><u>726</u></u>	<u><u>3,000</u></u>
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**Earnings per share attributable to shareholders
of the Bank**

— Basic and diluted (Renminbi)	14	<u><u>0.23</u></u>	<u><u>0.12</u></u>
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**Consolidated balance sheet
as at 31 December 2007**

(Expressed in millions of Renminbi unless otherwise stated)

	<i>Note</i>	31 December 2007	31 December 2006
Assets			
Cash and balances with central bank	15	209,399	90,620
Amounts due from banks and other financial institutions	16	55,851	43,250
Loans and advances to customers	17	568,686	453,381
Trading assets	18(a)	6,500	4,725
Derivatives	34	2,049	452
Investment securities	19	153,348	99,699
Property and equipment	20	8,948	8,745
Deferred tax assets	21	954	2,210
Other assets	22	<u>5,451</u>	<u>3,641</u>
Total assets		<u><u>1,011,186</u></u>	<u><u>706,723</u></u>
Liabilities			
Amounts due to central bank		415	201
Amounts due to banks and other financial institutions	23	112,587	36,166
Trading liabilities	18(b)	—	79
Derivatives	34	1,914	576
Deposits from customers	24	787,211	618,412
Current tax liabilities		3,444	1,230
Deferred tax liabilities	21	13	141
Other liabilities and provisions	25	9,511	6,224
Subordinated debts / bonds issued	26	<u>12,000</u>	<u>12,000</u>
Total liabilities		<u><u>927,095</u></u>	<u><u>675,029</u></u>

Consolidated balance sheet**as at 31 December 2007 (continued)***(Expressed in millions of Renminbi unless otherwise stated)*

	<i>Note</i>	31 December 2007	31 December 2006
Equity			
Share capital	27	39,033	31,113
Reserves	27	41,138	(303)
Retained earnings		3,915	879
Total equity attributable to shareholders of the Bank		84,086	31,689
Minority interests		5	5
Total equity		84,091	31,694
Total equity and liabilities		1,011,186	706,723

Balance sheet of the Bank**as at 31 December 2007***(Expressed in millions of Renminbi unless otherwise stated)*

	<i>Note</i>	31 December 2007	31 December 2006
Assets			
Cash and balances with central bank		209,390	90,620
Amounts due from banks and other financial institutions		56,365	43,718
Loans and advances to customers		568,479	453,204
Trading assets		6,500	4,725
Derivatives		2,049	452
Investment securities		153,017	99,335
Investment in subsidiaries	2(c)	33	33
Property and equipment		8,909	8,717
Deferred tax assets		954	2,210
Other assets		5,452	3,637
Total assets		1,011,148	706,651

Liabilities

Amounts due to central bank	415	201
Amounts due to banks and other financial institutions	112,587	36,166
Trading liabilities	—	79
Derivatives	1,914	576
Deposits from customers	787,214	618,416
Current tax liabilities	3,444	1,230
Deferred tax liabilities	4	140
Other liabilities and provisions	9,492	6,215
Subordinated debts / bonds issued	12,000	12,000
Total liabilities	927,070	675,023

Equity

Share capital	39,033	31,113
Reserves	41,151	(351)
Retained earnings	3,894	866
Total equity	84,078	31,628
Total equity and liabilities	1,011,148	706,651

Consolidated statement of changes in equity for the year ended 31 December 2007

(Expressed in millions of Renminbi unless otherwise stated)

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

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

Consolidated cash flow statement for the year ended 31 December 2007

(Expressed in millions of Renminbi unless otherwise stated)

	Note	2007	2006
Operating activities			
Profit before taxation		13,172	7,002
Adjustments for:			
— Revaluation loss / (gain) on investments and derivatives		812	(78)
— Net loss on disposal of fixed assets		2	2
— Unrealised foreign exchange loss		626	49
— Impairment losses		2,988	1,666
— Depreciation and amortisation		780	708
— Interest expense on subordinated debts / bonds issued		588	427
		18,968	9,776

Changes in operating assets and liabilities:

Increase in balances with central bank	(113,620)	(897)
Decrease / (increase) in amounts due from banks and other financial institutions	215	(15,668)
Increase in loans and advances to customers	(114,861)	(96,886)
Increase in other operating assets	(3,396)	(901)
Increase / (decrease) in amounts due to central bank	214	(39)
Increase in amounts due to banks and other financial institutions	76,421	8,145
Increase in deposits from customers	168,799	87,839
Income tax paid	(1,376)	(1,102)
(Decrease) / increase in other operating liabilities	(1,845)	2,159

Net cash flows from operating activities	29,519	(7,574)
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Investing activities

Proceeds from disposal and redemption of investments	254,118	211,648
Proceeds from disposal of property and equipment, land use rights, and other assets	62	63
Payments on acquisition of investments	(287,898)	(230,133)
Payments on acquisition of property and equipment, and land use rights	(1,408)	(740)
Cash from equity investment income	3	—

Net cash flows from investing activities	(35,123)	(19,162)
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Financing activities

Proceeds from share issuance, including interest income received and net of cost of issuing shares paid		44,843	—
Proceeds from capital injection		—	7,400
Interest paid on subordinated debts / bonds issued		(551)	(298)
Proceeds from debts issue		—	6,000
Profit paid to CITIC Group		(726)	(3,000)
Net cash flows from financing activities		43,566	10,102
Net increase / (decrease) in cash and cash equivalents		37,962	(16,634)
Cash and cash equivalents as at 1 January		53,027	70,130
Effect of exchange rate changes on cash and cash equivalents		(444)	(469)
Cash and cash equivalents as at 31 December	29	90,545	53,027
Cash flows from operating activities include:			
Interest received		40,152	29,135
Interest paid, excluding interest expense on subordinated debts / bonds issued		(13,864)	(12,009)

By order of the Board of Directors
China CITIC Bank Corporation Limited
KONG Dan
Chairman

Beijing, The PRC
26 March 2008

As at the date of this announcement, the executive directors of the Company are Dr. Chen Xiaoxian and Mr. Wu Beiyang; the non-executive directors of the Company are Mr. Kong Dan, Mr. Chang Zhenming, Mr. Wang Chuan, Mr. Dou Jianzhong, Ms. Chan Hui Dor Lam Doreen, Mr. Ju Weimin, Mr. Zhang Jijing and Mr. José Ignacio Goirigolzarri; and the independent non-executive directors of the Company are Dr. Bai Chong-En, Dr. John Dexter Langlois, Dr. Ai Hongde, Dr. Xie Rong and Mr. Wang Xiangfei.