中国建设银行
China Construction Bank

China Construction Bank Corporation Stock Code : 939

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

Annual Report 2006

The cover pen art is drawn
by **Mr. Wang Lihe**, a staff member of
China Construction Bank Corporation.

中国建设银行
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Headquartered in Beijing, China Construction Bank Corporation (the "Bank") has 52 years' history of operation in China. The Bank was listed on The Stock Exchange of Hong Kong Limited in October 2005 (Stock Code: 939), and became the first bank listed overseas among the big four Chinese commercial banks. As at the end of 2006, with a market capitalisation of USD142,994 million it ranked as one of the top 10 listed banks in the world.

At the end of 2006, the Bank had a network of 13,629 branches and sub-branches in Mainland China, and maintained overseas branches in Hong Kong, Singapore, Frankfurt, Johannesburg, Tokyo and Seoul, as well as representative offices in London and New York, with a total of 297,506 employees. Its subsidiaries mainly include China Construction Bank (Asia) Corporation Limited (formerly Bank of America (Asia) Limited), China Construction Bank (Asia) Limited (formerly Jian Sing Bank Limited), Sino-German Bausparkasse Co. Ltd and CCB Principal Asset Management Co., Ltd.

In 2006 the Bank developed various businesses in alignment with its strategy in order to realise the transformation of its business structure, and promoted the reengineering of operation mechanism by improving management patterns and business processes. With improved business structure and progressing reforms, the Bank is well on the way towards its strategic goal of becoming a world class commercial bank with the best services to our customers, the most value to our shareholders and the best career development opportunities to our employees.

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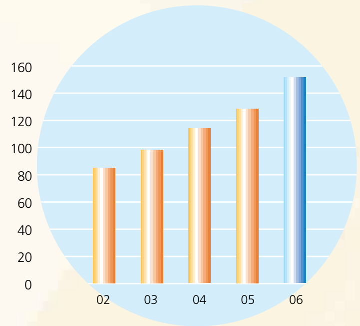
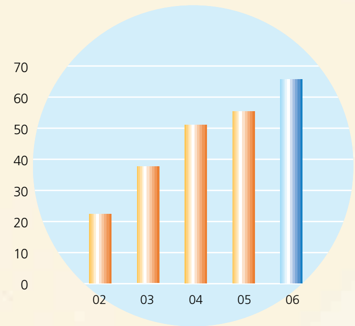
Operating income
In billions of RMB



Profit before tax
In billions of RMB



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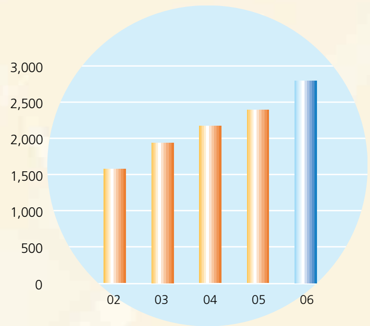
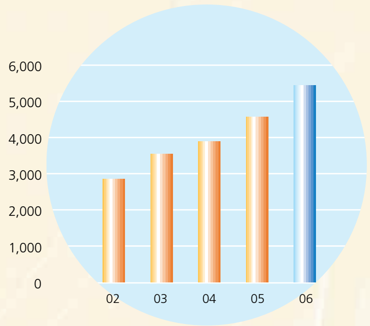
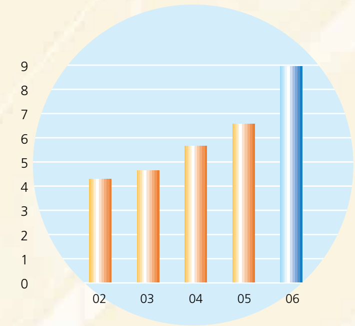
In billions of RMB



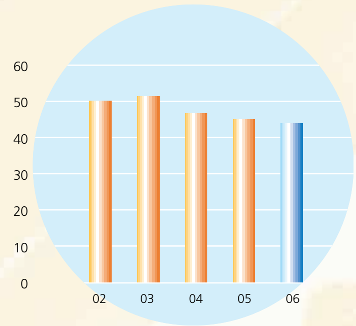
Total assets
In billions of RMB



Net fee and commission income to operating income
%



Cost-to-income ratio
%



Share Price Chart (939.HK)

(27 October 2005 - 29 December 2006)

FINANCIAL HIGHLIGHTS

The table below sets forth the consolidated financial summary of the Bank and its subsidiaries (collectively the "Group") for the years ended 31 December.

	2006	2005	Change
For the year	(In millions of RMB)		+/(-)%
Operating income	**151,593**	128,714	17.78
Profit before tax	**65,717**	55,364	18.70
Net profit	**46,319**	47,096	(1.65)
Adjusted net profit[1]	**46,319**	39,248	18.02
As at 31 December	(In millions of RMB)		+/(-)%
Total equity attributable to shareholders of the Bank	**330,109**	287,579	14.79
Issued and paid-up capital	**224,689**	224,689	—
Total assets	**5,448,511**	4,585,742	18.81
Per share	(In RMB)		+/(-)%
Net asset value per share	**1.47**	1.28	14.84
Earnings per share	**0.21**	0.24	(12.50)
Final cash dividend per share proposed after balance sheet date	**0.092**	0.015	513.33
Financial ratios	(%)		+/(-)
Profitability indicators			
Return on average assets	**0.92**	1.11	(0.19)
Adjusted return on average assets[2]	**0.92**	0.92	—
Return on average equity	**15.00**	21.59	(6.59)
Adjusted return on average equity[3]	**15.00**	17.99	(2.99)
Net interest spread	**2.69**	2.70	(0.01)
Net interest margin	**2.79**	2.78	0.01
Net fee and commission income to operating income	**8.95**	6.57	2.38
Cost-to-income ratio	**43.97**	45.13	(1.16)
Capital adequacy indicators			
Core capital adequacy ratio[4]	**9.92**	11.08	(1.16)
Capital adequacy ratio[4]	**12.11**	13.59	(1.48)
Total equity to total assets	**6.06**	6.27	(0.21)
Asset quality indicators			
Non-performing loan ratio	**3.29**	3.84	(0.55)
Allowances to non-performing loans	**82.24**	66.78	15.46
Allowances to total loans	**2.70**	2.57	0.13

1. Calculated by excluding the effect of the tax exemption in 2005 granted by the People's Republic of China ("PRC") government in relation to the restructuring of the Bank from the net profit.
2. Calculated by dividing adjusted net profit by the average of total assets as at the beginning and end of the year.
3. Calculated by dividing adjusted net profit attributable to shareholders by the weighted average of total equity attributable to shareholders for the year.
4. Calculated in accordance with the guideline issued by the China Banking Regulatory Commission (the "CBRC") and the consolidated financial statements prepared in accordance with the Accounting Standards for Business Enterprises, the Accounting Regulations for Financial Enterprises (2001) and other relevant regulations issued by the Ministry of Finance of the PRC (the "MOF") (collectively the "PRC GAAP").

FIVE-YEAR FINANCIAL SUMMARY

中国建设银行 China Construction Bank

	2006	2005	2004	2003	2002
For the year			(In millions of RMB)		
Operating income	**151,593**	128,714	113,976	98,604	85,199
Profit before tax	**65,717**	55,364	51,199	37,702	22,402
Net profit	**46,319**	47,096	49,040	22,533	11,334
Net profit attributable to shareholders of the Bank	**46,322**	47,103	49,042	22,533	11,334
Per Share			(In RMB)		
Earnings per share	**0.21**	0.24	0.26	0.12	0.06
As at 31 December			(In millions of RMB)		
Loans and advances to customers[1]	**2,795,976**	2,395,313	2,173,562	1,943,359	1,576,193
Total assets	**5,448,511**	4,585,742	3,909,920	3,557,066	2,857,936
Deposits from customers	**4,721,256**	4,006,046	3,491,121	3,195,673	2,822,744
Total liabilities	**5,118,307**	4,298,065	3,714,369	3,369,861	2,991,142
Total equity attributable to shareholders of the Bank	**330,109**	287,579	195,516	187,168	(133,206)
Financial ratios			(%)		
Return on average assets	**0.92**	1.11	1.31	0.70	0.42
Net fee and commission income to operating income	**8.95**	6.57	5.68	4.65	4.30
Cost-to-income ratio	**43.97**	45.13	46.87	51.46	50.12
Non-performing loan ratio	**3.29**	3.84	3.92	4.27	16.97
Loan-to-deposit ratio	**60.87**	61.37	63.80	62.51	63.18

1. The balances are net of allowances for impairment losses.

中国建设银行 China Construction Bank

IMPORTANT EVENTS, RANKINGS AND AWARDS

Important Events

- On 24 August 2006, the Bank entered into an agreement in Hong Kong with Bank of America Corporation ("BAC") to acquire a 100% interest in its local wholly-owned subsidiary, Bank of America (Asia) Limited, and the subsidiaries thereof. Following completion of the acquisition on 29 December 2006, Bank of America (Asia) Limited changed its name to China Construction Bank (Asia) Corporation Limited. As a result, the acquisition has since become a platform for the development of the Bank's retail banking in Hong Kong and Macau, and with its local operations doubling in size, the Bank has now climbed from 16th to 9th place in terms of customer loans.

- On 11 September 2006, the Bank became the first issuer of H-shares to be included in the Hang Seng Index. As at 29 December 2006, the Bank commanded a 2.45% capitalisation share in the index, and its H-shares closed at HK$4.95, a rise of 110.64% over the initial public offering price.

- In 2006 we collaborated extensively with strategic investors in corporate governance, retail business, risk management, information technology management, corporate business, treasury dealings, human resources management, and Six Sigma quality and productivity management, and many other areas. The following six projects were completed in collaboration with BAC: free ATM cash withdrawal, direct remittance services, Voice of Customer survey, retail branch transformation, as well as personal loan centre process optimisation and call centre improvement. The two parties jointly completed investment management of two batches of the

Qualified Domestic Institutional Investor ("QDII") wealth management products, and cooperated to provide cash management service to two foreign invested companies. Our strategic cooperation with Temasek Holdings (Private) Limited ("Temasek") and Asia Financial Holdings Pte. Limited ("AFH") largely took the form of experience sharing and training, which cover numerous business and management fields.

Rankings and Awards

- ranked 11th in the "Top 1000 World Banks" in terms of tier 1 capital and 1st in the "Top 100 Chinese Banks" by *The Banker* in 2006.

- ranked 65th in *Forbes'* "2000 leading Companies in the world" in terms of sales, profits, assets and market value; 2nd among Chinese enterprises in 2006.

- ranked 277th in "Global 500" in terms of revenue by *Fortune* in 2006.

- ranked 8th in the "Top 500 Enterprises of China" and 6th in the "Top 500 Service Enterprises of China" jointly by Chinese Enterprise Confederation and Enterprise Directors Association in 2006.

- ranked 7th in the "Top 300 Asian Banks" in terms of total assets and 1st with the highest net interest income and highest net profit, and was hailed as the "most profitable bank in Asia" by *Asiaweek* in 2006.

- ranked 1st in the "Top 100 Asian Banks" in terms of net income, and was included in the lists of the "Best Managed Company", "Best Commitment to Strong Dividend Payment" and "Best Corporate Governance Company" by *FinanceAsia* in 2006.

- awarded the "Best Domestic Bank" in China by *The Asset* in 2006.

- presented with the "Retail Banking Project Award for Cross Channel Experience" and the "Retail Banking Innovation Award for Payment Innovation" by *The Banker* in 2006.

- awarded with the "Deal of the Year" for 2006 by *Asiamoney*.

- ranked 4th in the Asian Bank Competitiveness list, 1st in the Chinese Domestic Bank Competitive Rankings, named as the "Most Competitive Chinese Commercial Bank" and one of the "Top 10 Growth Banks in Asia", and presented with the "Best Investor Relations Award" jointly by 21st Century Business Herald, the Faculty of Business Administration of The Chinese University of Hong Kong and Guanghua School of Management of Peking University in 2006.

- presented with the "Core Brand Award of the Top 10 Favourite Brands among Chinese Netizens", and the Long Card was named as one of the "Top 10 Favourite Brands in Financial Industry among Chinese Netizens" by the Internet Society of China in 2006.

Guo Shuqing
Chairman

The Bank's strategic vision is to become a

world class commercial bank

with the best services to our customers, the most value to our shareholders and the best career development opportunities to our employees.

2006 marked a historic milestone in the Bank's development towards a modern commercial bank, with all the growth strategies set by our directors implemented properly.

We endorsed our customer-focused corporate culture by improving business processes, introducing branch transformation and strengthening product innovation, and achieved enhanced service quality. The adjustment of our business structure was accelerated through the restructuring of wholesale business; continued development of our retail business, fee-based services, and overseas operations. We actively explored investment banking and asset management businesses, and acquired Bank of America (Asia) Limited, gaining a platform for expanding into overseas markets. We fully established the vertical risk management structure, and assigned risk managers and business managers to work together under a parallel operation structure. In addition, assessment standards and procedures for internal control systems were set up so that we could improve these systems through continued assessment. Moreover, we have collaborated extensively with strategic investors in many areas such as corporate governance, risk management, wholesale banking, retail banking, treasury operations, human resources management, and development of information technology systems, and significant progress has been achieved.

As a result of its strong ability to implement the strategies, the Bank posted strong overall growth. In 2006, the Bank became the largest provider of personal loans as well as residential mortgage loans in the PRC. Credit card issued during the year topped the big four PRC banks with the spending amount rising by over 100% over 2005. Our established business of infrastructure loans grew by 29.16%, and the loans to small-sized enterprises grew by 26.43% over the year. The net fee and commission income rose by 60.51% compared with the previous year.

The strong business growth led to a significant rise in its profitability. Its asset quality improved steadily, with both the non-performing loan balance and ratio falling. A net profit of RMB46,319 million was recorded, with an 18.02% increase over the previous year after excluding the impact of the income tax exemption obtained as part of its restructuring. Earnings per share were RMB0.21, while return on average assets and return on average equity were 0.92% and 15.00% respectively. Our board of directors (the "Board") has recommended a cash dividend of RMB0.092 per share.

We were recognised in areas ranging from corporate governance, customer service, management, profitability, to the quality of our financial products. Ranked as the Best Managed Company and Best Corporate Governance Company in the polls by *FinanceAsia*, the Bank topped the list of Top 300 Asian Banks for 2006 by *Asiaweek* with the highest net interest income and highest net profit, and was hailed as the "most profitable bank in Asia".

Whilst achieving strong operating results, we are also committed to corporate social responsibility, and continued to contribute through numerous meaningful ventures and donations, including supporting the redevelopment of disaster-stricken areas, sponsoring the 2007 Special Olympics World Summer Games, and building CCB Hope Primary Schools via the CCB Caring Foundation which was established through employee donations. In 2006 we were presented with the Annual Contribution Award for the Walk for Poverty Alleviation in China for 2006 and the Special Contribution to Poverty Alleviation Award in China by the China Foundation for Poverty Alleviation. We were also recognised as the Most Responsible Corporate Citizen in China by the Red Cross Society of China.

In the year ahead, China's financial sector will become fully accessible to outside competitors. Furthermore, China's economy will continue to grow rapidly. It is anticipated that the domestic capital market will experience rapid growth, and competition will intensify among domestic and overseas market players. Therefore, we will be faced with more demanding requirements and greater challenges. Nevertheless, we are well positioned to take full advantage of the enormous development opportunities amid these challenges. We will continue to enhance our service quality, promote business transformation, accelerate financial innovation, and strive to achieve a steady development with balanced risk and reward. Going forward, we firmly believe that, with the concerted efforts of the Board, the management, the board of supervisors, and all our staff, as well as the support of our customers, shareholders and the community, we will continue to welcome further success in the coming year!

郭树清

Chairman

13 April 2007

Zhang Jianguo
Vice Chairman, Executive Director and President

2006 witnessed stable and rapid growth in China's economy, which created a favourable environment for our business expansion. By seizing on these opportunities, we implemented the development strategies and operating policies set by the general meeting of shareholders and the Board. We also fulfilled our commitments to shareholders, customers, and employees, by steadily transforming our business and improving our operating structure. As a result, we achieved rapid business growth, continued to improve our business, and steadily increased our market share.

Outstanding Performance in 2006

- Steady improvements in quality and productivity

In 2006, the Group achieved pre-tax profit of RMB65,717 million, representing an increase of RMB10,353 million, or 18.70%, over the previous year.

Whilst our traditional core businesses enjoyed steady growth, we were focused on developing our retail, international, treasury and wealth management businesses. As a result, operating income experienced rapid growth. During the year, the Group achieved an operating income of RMB151,593 million, an increase of 17.78%, and recorded a net interest income of RMB140,368 million, or an increase of 20.43%, compared to 2005. Net fee and commission income rose by 60.51%. The proportion of net fee and commission income to operating income rose to 8.95%.

In 2006, the Group recorded a net exchange loss of RMB6,068 million after taking into account the effect of options and swaps, which was a result of RMB appreciation during the year. However, we were able to offset this loss by utilising our US dollar-denominated assets in earning interest income with higher yields than RMB-denominated assets.

We continued to implement stringent group-wide cost control measures, as a result, we maintained a healthy cost-to-income ratio. In 2006, general and administrative expenses grew slower than operating income, with the cost-to-income ratio falling by 1.16 percentage points from the previous year to 43.97%. As the tax exemptions in relation to the restructuring expired on 30 June 2005, income tax rose in 2006, which mainly explained the slight reduction in the Group's net profit.

The Group's overall asset quality continued to improve due to its ongoing enhancement of risk management systems as well as its efforts to upgrade risk management capabilities. As at 31 December 2006, its non-performing loans fell by RMB70 million to RMB94,399 million compared to 2005, while the non-performing loan ratio dropped by 0.55 percentage points to 3.29%. The ratio of allowances for impairment losses to non-performing loans increased from 66.78% to 82.24% during the year.

- Effective structural reform

The Group outperformed its domestic competitors in terms of loan growth. As at 31 December 2006, loans and advances to customers totalled RMB2,873,609 million, representing an increase of 16.89%, while deposits from customers reached RMB4,721,256 million, an increase of 17.85%. The growth was primarily due to favourable market opportunities and enhanced brand penetration, which fuelled the growth in both loans and deposits as well as expansion of our market share.

We maintained strong growth in our established medium to long-term loan business, and were well placed to benefit from the robust demand by tapping into new markets and increased marketing efforts. These initiatives brought about rapid growth in our fixed assets loan business. As at 31 December 2006, the fixed assets loan balance was RMB1,038,240 million, accounting for 50.45% of corporate loans. Of these, the infrastructure loan business performed remarkably well, recording an annual growth of 29.16%. Meanwhile, the Group was focused on monitoring industries affected by China's macroeconomic policies, and also leveraged the economic capital approach and credit risk early warning analysis in governing the type and pace of loan extension.

In 2006, the Group secured the largest market shares in both personal loans and residential mortgage loans in the PRC. The Group took advantage of the increased demand for residential housing with the booming Chinese economy by improving and launching new products and services as well as expanding loan operations while maintaining effective risks controls. As at 31 December 2006, the Group's personal loan balance increased to RMB585,085 million, 28.90% higher than at the end of 2005. The proportion of personal loans to total loans rose by 1.90 percentage points to 20.36%. Of these, the residential mortgage loan balance increased by RMB79,820 million to RMB428,039 million. The Group is now ranked first both in terms of size and growth in the PRC mortgage market.

During the year, significant developments were evident in our credit cards, electronic banking, international, treasury and investment banking businesses. The number of credit cards issued amounted to 6.34 million and the total spending amount was RMB40,467 million. The number of credit cards issued and spending amount both recorded a year-on-year growth over 100%. In terms of our electronic banking, we now have 43.29 million customers and a total transaction amount of RMB30.7 trillion, representing increases of 38% and 227%

respectively compared to the previous year. Our international settlement volume grew by 35.05% to USD190.3 billion, while our customer-driven foreign exchange trading as well as purchases and sales of foreign exchange reached the volume of USD123.3 billion, 27.51% higher than in 2005. We secured the largest domestic market share in commercial paper underwriting, recording a total of RMB65,775 million, or an increase of 56.24% compared with 2005.

In 2006, a major breakthrough was achieved in our overseas expansion through the successful acquisition of a 100% interest in Bank of America (Asia) Limited and its subsidiaries for HK$9.71 billion. Following the acquisition, the size of our operations in Hong Kong doubled, and in terms of customer loans, we have now climbed from 16th to 9th place. This acquisition has become a platform for us to develop our retail banking in Hong Kong and Macau, resulting in enhanced customer service capability and market competitiveness.

- **Further reforms**

In 2006, we were proactive in promoting the reform of our risk management system through the appointment of our Chief Risk Officer, under a vertical reporting framework, and risk supervisors at tier-one branches as well as risk heads at tier-two branches and risk managers. Working with the relationship managers, our risk managers were involved in every aspect of the credit process ranging from approval assessment to subsequent monitoring. In addition, we further integrated our internal audit resources. Internal audits were deployed centrally by the head office under a vertical management structure, which has enhanced our internal audit capability, and resulted in significant progress in reorganising our internal audit function.

We have also restructured our accounting and operational management systems by segregating core operations into front and back office functions. Back office activities and support functions, such as cash delivery, vault management, and files management, have been gradually centralised. As a result, our risk control capability has strengthened, and our service efficiency and customer satisfaction have steadily improved.

We continued to revamp our human resource management by strengthening our employee incentive schemes and improving intensive staff training programmes. To encourage our staff to develop their talents, we presented twelve employees with CCB Outstanding Contribution Award in recognition of their contributions, with prizes ranging from RMB100,000 to RMB300,000. Also, we ran 7,071 various training sessions with 402,200 enrolments.

- **Product innovation**

We continued our efforts in product innovation to better satisfy the needs of our customers. During the year, we pioneered cash deposit and withdrawal services for individual RMB deposit customers across branches throughout the PRC. We successfully launched 19 batches of "Profit from Interest" RMB wealth management products and 17 batches of "Profit from Exchange" personal foreign currency structured deposit products. The underlying assets of our wealth management products expanded from initial central bank bills to commercial paper, trust plans, bank credit assets, and offshore fixed income products. We and BAC completed the launch of two batches of our QDII wealth management products. Moreover, we achieved a 26.43% growth in loans to small businesses with our innovative credit products, including "Quick Finance" and "Road of Growth", targeted at small to medium-sized enterprises ("SME").

During the year, we bolstered our financial innovation capability by setting up 10 expert teams responsible for corporate products. Our first research and development ("R&D") centre for retail products was set up in Shenzhen, while an R&D centre for electronic banking was established in Guangzhou. As a result, our product R&D has become more centralised, controlled, and standardised.

- Strategic cooperation

The strategic partnership with BAC was further deepened through technical assistance and business cooperation. During the year, we implemented a total of 14 strategic assistance projects. Among these initiatives, we concluded the free cash withdrawal project at ATMs, and launched direct remittance services, which have benefited customers of both banks. We also completed three pilot projects, namely transformation of retail branches, improvements of personal loan centres and call centres, which have improved customer satisfaction with new service processes and standards. We have since begun to roll out the results of these projects throughout the country. In addition, the two parties have been successful in cooperating to provide cash management service to foreign invested companies, and will endeavour to cooperate in broader areas going forward.

Our strategic cooperation with Temasek and AFH took the form of experience sharing and trainings. Trainings were mainly focused on areas such as SMEs and small enterprises business, treasury, asset and liability management, institutional banking, and human resources management.

Outlook for 2007

In 2007, the factors conducive to economic development will remain. We foresee that China's economy will maintain steady growth and external factors, such as credit environment, legal system, and regulatory supervision will continue to improve and help in accelerating our reform and development.

Meanwhile, the banking industry's operating environment is now undergoing a series of changes. Specifically, we will face the following challenges: First, following the end of the transitional period of China's accession to the WTO, domestic banks anticipate fiercer competition from foreign banks as well as domestic rivals. Second, the government will further strengthen its macroeconomic policies. Accordingly, our credit growth may be held back to a certain degree. Third, the market anticipates sustained excess liquidity, as a result, our fund utilisation will be under increased pressure. Fourth, further development of the capital market will, to some extent, reduce credit demand from commercial banks. Last, interest rate will gradually become more competitive and continued appreciation in the RMB is expected, which will affect the stability of interest spread and the value of foreign currency assets in the banking sector.

Against this backdrop, we will remain positive and intend to focus on the following areas:

- **Leverage our advantages in established businesses and expedite business transformation.** We will continue to develop our established businesses, such as deposit-taking, loan extension, and clearing, and take advantage of any new growth opportunities arising from the thriving capital market. We will focus on both established and new businesses and strengthen regional and operational synergies. We will also be active in developing emerging businesses such as investment banking, consumer finance, financial services for small businesses, asset management and capital market services. Furthermore, the Group will effectively consolidate its entities and business resources in Hong Kong, and further strengthen its overseas operations.

- **Further the growth and importance of our personal banking.** We will continue to rationalise our branch network, consolidate sales channels, and enhance our competitiveness and market share in major areas. We plan to promote our new improved branches, and to standardise and modify the workflow of marketing and services at the branch level. As a result, we will upgrade service and sales capability, thereby offering better customer service.

- **Strengthen overall risk management and enhance quality and return.** We will continue to reinforce the awareness of risk management on a bank-wide level, and introduce strategic and structural changes and raise risk-adjusted return through the use of economic capital and the Economic Value Added management approaches. We will also accelerate the implementation of new Basel Capital Accord and further improve our internal rating system.

- **Improve management capabilities and increase momentum in our business expansion.** We will continue to improve our operational management through the reform and rationalisation of our organisational structure and management conduct. Our partnership with BAC will continue to improve product collaborative programmes with the aim of improving product quality and processes. We will concentrate in improving and consolidating the key application systems of our core business processing systems. Performance management system will be improved through the use of key performance indicators.

2006 marked our first year being under the spotlight of the international capital market. We owe our success to the relentless efforts of our employees, the support of our customers and strategic partners, as well as the help from the community. On behalf of the senior management, I extend my heartfelt gratitude to each of them. As a committed and ambitious team, we will remain focused and positive faced with the challenges brought by intensified competition, and strive to meet our 2007 operating targets and fully fulfil our strategic vision.

Vice Chairman, Executive Director
and President

13 April 2007

Xie Duyang
Chairman of the Board of Supervisors

Financial Overview

In 2006 China's economy maintained a steady and fast growth with GDP increasing by 10.7%. The PBOC introduced a series of macroeconomic adjustment and control measures, which included lifting interest rates, issuing designated PBOC bills, and raising the statutory deposit reserve rates. Faced with new market conditions and opportunities, while continuing to tighten risk controls amid active business expansion, the Group achieved steady growth in both assets and liabilities, continuous improvement in income structure and stable rise in profit before tax.

Income Statement Analysis

The Group recorded profit before tax of RMB65,717 million in 2006, representing an increase of RMB10,353 million, or 18.70% compared to 2005. The increase was mainly attributable to rises in net interest income and net fee and commission income, which together brought about a 17.78% year-on-year increase in operating income, outweighing the 14.75% increase in operating expenses. Following the expiry of the Group's tax exemption status on 30 June 2005 granted as part of its restructuring, and the resultant increase in income tax for 2006, net profit fell slightly by 1.65% to RMB46,319 million against 2005. However, if the impact of tax exemption was excluded, net profit for 2006 rose by RMB7,071 million, or 18.02% compared to 2005.

Net Interest Income

The Group's net interest income for 2006 grew by RMB23,817 million to RMB140,368 million, representing an increase of 20.43% over 2005.

The table below shows the Group's average balance of assets and liabilities, related interest income or expense, and average yield or cost during the respective period.

	Year ended 31 December 2006			Year ended 31 December 2005		
	Average balance	Interest income/ expense	Average yield/ cost (%)	Average balance	Interest income/ expense	Average yield/ cost (%)
	(In millions of RMB, except percentages)					
Assets						
Total loans and advances to customers	**2,753,100**	**153,456**	**5.57**	2,357,586	127,105	5.39
Investments in debt securities	**1,714,993**	**50,139**	**2.92**	1,263,384	36,379	2.88
Balances with central banks	**428,701**	**7,276**	**1.70**	408,599	6,675	1.63
Amounts due from banks and non-bank financial institutions	**129,819**	**4,318**	**3.33**	160,524	3,442	2.14
Total interest-earning assets	**5,026,613**	**215,189**	**4.28**	4,190,093	173,601	4.14
Total allowances for impairment losses	**(71,551)**			(60,531)		
Non-interest-earning assets	**153,746**			153,330		
Total assets	**5,108,808**	**215,189**		4,282,892	173,601	
Liabilities						
Deposits from customers	**4,424,663**	**67,811**	**1.53**	3,757,636	52,084	1.39
Amounts due to banks and non-bank financial institutions	**220,636**	**4,877**	**2.21**	164,590	2,920	1.77
Subordinated bonds issued	**39,912**	**1,883**	**4.72**	39,907	1,850	4.64
Other interest-bearing liabilities	**6,050**	**250**	**4.13**	6,828	196	2.87
Total interest-bearing liabilities	**4,691,261**	**74,821**	**1.59**	3,968,961	57,050	1.44
Non-interest-bearing liabilities	**93,545**			72,182		
Total liabilities	**4,784,806**	**74,821**		4,041,143	57,050	
Net interest income		**140,368**			116,551	
Net interest spread			**2.69**			2.70
Net interest margin			**2.79**			2.78

Yields on various interest-earning assets improved over the year, resulting in an increase of 14 basis points in the overall yield on interest-earning assets from the previous year, although this was partly offset by the reduced proportion of average balance of loans and advances to customers in total assets. Meanwhile, the costs of various interest-bearing liabilities increased, leading to a rise of 15 basis points in the overall cost of interest-bearing liabilities compared with 2005. Net interest spread fell by one basis point over the year as the average yield on interest-earning assets rose at a lower rate than that of the average cost of interest-bearing liabilities. To raise the asset yield, the Group made great efforts to control the proportion of non-interest-earning assets, and as a result, interest-earning assets grew faster with increased share in the total assets. The net interest income grew at a rate slightly higher than that of the average balance of interest-earning assets, causing the net interest margin to move up by one basis point over the previous year.

Buoyed by the hikes of benchmark lending rates by the PBOC and adjustments in its operating strategies, the Group achieved sustained growth in yields on loans and advances to customers as well as investment in debt securities during the second half of 2006. The yields on interest-earning assets for the year was 13 basis points higher than in the first half of 2006, while the cost of interest-bearing liabilities also showed a slight increase of 3 basis points, leading to increases in the net interest spread and net interest margin for the year by 10 basis points and 9 basis points respectively over the first half of 2006.

Interest Income

The Group's interest income in 2006 was RMB215,189 million, with an increase of RMB41,588 million, or 23.96% over 2005. This was primarily attributable to the rises of the balances of and yields on loans and advances to customers as well as investment in debt securities.

Interest Income from Loans and Advances to Customers

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

	Year ended 31 December 2006			Year ended 31 December 2005		
	Average balance	**Interest income**	**Average yield (%)**	Average balance	Interest income	Average yield (%)
	(In millions of RMB, except percentages)					
Corporate loans	**1,964,443**	**116,047**	**5.91**	1,723,111	96,679	5.61
Personal loans	**517,088**	**29,403**	**5.69**	429,193	23,781	5.54
Discounted bills	**227,537**	**5,456**	**2.40**	171,815	5,304	3.09
Operations outside Mainland China	**44,032**	**2,550**	**5.79**	33,467	1,341	4.01
Loans and advances to customers	**2,753,100**	**153,456**	**5.57**	2,357,586	127,105	5.39

Interest income from loans and advances to customers increased to RMB153,456 million by RMB26,351 million, or 20.73% over 2005, as a result of the rapid expansion of various lending businesses and an increase in the average yield on loans. Average yield on loans and advances to customers rose over 2005, largely due to the following factors: increases of 30 and 15 basis points were recorded for yields on corporate and personal loans respectively, as the PBOC raised the benchmark lending rates twice in 2006 and the Group enhanced its product pricing abilities; the decrease in average yield on discounted bills during the year was partly offset, as in the second half of 2006 the Group actively curtailed the bill discounting business with the average balance for the year dropping by RMB35,529 million compared to the first half of the year; lastly, there was an increase of 178 basis points in the average yield on operations outside Mainland China over 2005 because of USD interest rate hikes.

Interest Income from Investments in Debt Securities

Interest income from debt securities investments was RMB50,139 million, representing a year-on-year increase of RMB13,760 million, or 37.82%, as a result of the increase in the average balance of and the average yield on investment in debt securities. An increase of four basis points in the average yield was attributable to the increase of the average yield on foreign currency-denominated debt securities and their increased proportion within the total investments. The Group raised the investment portfolio yield by gradually scaling down foreign currency inter-bank lending balance and raising the balance of investments in debt securities. The investments mainly focused on the acquisition of asset-backed or mortgage-backed securities and corporate bonds, with a moderate increase in credit spread products such as callable bonds of institutions.

Interest Income from Balances with Central Banks

Interest income from balances with central banks amounted to RMB7,276 million, representing an increase of 9.00%. Because the PBOC lifted the statutory deposit reserve rate three times in 2006, both the average balance and the proportion of the statutory reserve funds increased. In addition, the Group reduced the average surplus deposit reserve rate by around one percentage point against the previous year while maintaining adequate liquidity, leading to the rise in the average yield on balances with central banks.

Interest Income from Amounts due from Banks and Non-bank Financial Institutions

Interest income from amounts due from banks and non-bank financial institutions rose to RMB4,318 million by RMB876 million, or 25.45% compared with 2005. This was chiefly due to the rise in the USD interest rates, which drove the average yield up by 119 basis points compared with 2005.

Interest Expense

Interest expense of RMB74,821 million was RMB17,771 million, or 31.15%, higher than in 2005, primarily due to an increase in the average balance of customers' deposits and a higher average interest rate for deposits.

Interest Expense on Deposits from Customers

Interest expense on deposits from customers was RMB67,811 million, with a rise of RMB15,727 million, or 30.20% against 2005, as a result of the increase in the average balance of deposits and higher average deposit rates. Influencing factors include the PBOC's decision to raise benchmark interest rates for deposits in August 2006, the rise of USD interest rates as well as the increase in the average balance of time deposits as part of the total deposits. Owing to the active domestic capital market, the customers are more willing to make demand deposits with us, as a result, the proportion of average balance of time deposits started to fall in the second half of 2006.

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

Interest expense on amounts due to banks and non-bank financial institutions reached RMB4,877 million, 67.02% higher than in 2005, primarily due to increases in the average balance and the average cost. The average cost rose by 44 basis points from the previous year, largely because the average cost of foreign currency-denominated amounts due to banks and non-bank financial institutions climbed in tandem with USD interest rates, as well as a bigger share of foreign currency assets in the average balance of the amounts due to banks and non-bank financial institutions.

Net Fee and Commission Income

	Year ended 31 December 2006	Year ended 31 December 2005
	(In millions of RMB)	
Fee and commission income	**14,627**	9,261
Agency fees from securities, foreign currency dealing and insurance services	**3,934**	1,927
Bank card fees	**3,836**	2,618
Remittances, settlement and account management fees	**2,768**	2,116
Consultancy and advisory fees	**1,466**	848
Commission on trust business	**1,229**	946
Guarantee fees	**636**	290
Payment and collection services fees	**335**	246
Others	**423**	270
Fee and commission expenses	**1,056**	806
Net fee and commission income	**13,571**	8,455

Net fee and commission income of RMB13,571 million was realised, 60.51% higher than in 2005, as the Bank took measures to improve its performance measurement and incentive methods, invested more resources in fee and commission based business, and exploited the competitive edge of its distribution network. The ratio of net fee and commission income to operating income reached 8.95%, an increase of 2.38 percentage points over 2005.

Agency fees for securities, foreign currency dealing and insurance services rose by RMB2,007 million, or 104.15%, largely benefiting from the considerable income growth of the securities agency business as well as purchases and sales of foreign exchange. Leveraging business opportunities from the revival of the domestic capital market, the Group stepped up marketing activities of its agency services for products such as funds, government bonds and insurance as well as underwriting commercial paper, and gained notable results. Specifically, we provided agency services for the initial issuance of funds totalling RMB64,600 million, nearly an eightfold increase over 2005; and underwrote commercial paper amounting to RMB65,775 million, maintaining our leading market position. Increased income from purchases and sales of foreign exchange was largely brought about by greater volume of purchases and sales of foreign exchange following the reform of the RMB exchange rate regime.

Bank card fees climbed by RMB1,218 million or 46.52%, primarily due to the substantial increases in the spending amount of bank cards and ATM transactions. In particular, the total spending amount of bank cards reached RMB243.7 billion, up 68.86% over 2005.

Other Operating Loss/Income

In 2006 the Group's other operating loss amounted to RMB4,401 million, comprising a net foreign exchange loss of RMB6,068 million, which was resulted from the appreciation of the RMB; and a net gain on disposal of property and equipment and other income of RMB1,667 million.

The specific composition of foreign exchange exposures as at 31 December 2006 and the respective profit and loss in 2006 are set out below:

	As at 31 December 2006 Composition of foreign exchange exposures[1]			Year ended 31 December 2006
	On balance sheet	Off balance sheet	Total	Foreign exchange gain/(loss)
		(In millions of RMB)		
Foreign exchange exposures related to the foreign currency assets arising from the USD22,500 million capital injection				
— Foreign currency assets arising from the USD22,500 million capital injection	175,615		175,615	(5,965)
— Respective foreign exchange hedging option contract		(175,615)	(175,615)	2,365
Subtotal	175,615	(175,615)	—	(3,600)
A swap of USD8,969 million	70,006	(70,006)	—	(1,987)
Exposures from foreign currency-denominated operating funds of USD5,205 million	40,625		40,625	(1,380)
Customer-driven foreign exchange transactions and other foreign exchange exposures	(14,425)	17,251	2,826	899
Net foreign exchange exposures[2]	**271,821**	**(228,370)**	**43,451**	
Net foreign exchange loss				**(6,068)**

1. The foreign exchange exposures are RMB equivalent foreign currency exposures. Positive figures represent long positions of foreign currency and negative figures represent short positions of foreign currency.
2. The net foreign exchange exposures represent the net long position disclosed in "Currency Concentrations" of the unaudited supplementary financial information.

— Foreign exchange exposures related to the foreign currency assets arising from the USD22,500 million capital injection

In 2006, a foreign exchange loss of RMB5,965 million was recorded on foreign currency assets arising from the capital injection of USD22,500 million as a result of the appreciation of the RMB; meanwhile, the net gain from the revaluation of the fair value of the foreign exchange option contract purchased to hedge currency risk of the above assets was RMB2,365 million. Thus the net foreign exchange loss from foreign exchange exposures related to the foreign currency assets arising from the capital injection of USD22,500 million was RMB3,600 million.

— A swap of USD8,969 million

The Group entered into a USD/RMB swap contract of USD8,969 million with the PBOC. Without affecting its foreign exchange exposures, the Group capitalised on the broad range of foreign currency investment, and gained extra interest income from the higher yields on assets denominated in US dollars over those on assets denominated in RMB. In 2006, the net realised and revaluation loss for the foreign exchange swap of USD8,969 million totalled RMB1,987 million. Meanwhile, the additional interest income from the assets denominated in US dollars arising from the swap transaction was shown in the interest income and net gain arising from investment securities in the consolidated income statement.

— Exposures from foreign currency-denominated operating funds of USD5,205 million

As at 31 December 2006, the Group's exposures from the accumulated purchase of foreign currency-denominated operating funds were USD5,205 million. In 2006 the net foreign exchange loss from the above funds was RMB1,380 million.

— Customer-driven foreign exchange transactions and other foreign exchange exposures

The net gain from customer-driven foreign exchange transactions and the net revaluation difference from other foreign exchange exposures totalled RMB899 million in 2006.

The above foreign exchange loss has been compensated by the additional interest income arising from the foreign currency assets which are mainly denominated in US dollars. The market yields on assets denominated in US dollars were higher than the market yields on assets denominated in RMB.

Operating Expenses

	Year ended 31 December 2006	Year ended 31 December 2005
	(In millions of RMB, except percentages)	
Staff costs	**32,285**	27,298
Property and equipment expenses	**11,133**	10,552
Business tax and surcharges	**8,977**	7,401
Other operating expenses	**14,267**	12,841
Total operating expenses	**66,662**	58,092
Cost-to-income ratio	**43.97%**	45.13%

In 2006 the Group continued to contain operating expenses and achieved a lower cost-to-income ratio of 43.97%.

The Group's operating expenses for 2006 was RMB66,662 million, with an increase of RMB8,570 million, or 14.75% over 2005, primarily due to higher salaries, bonuses and welfare payments which reflected improvements in operating results. Staff cost rose by 18.27%, reflecting the high growth of profit before tax. The Group also invested more in its network infrastructure and technology, and actively launched various marketing initiatives to further support the development of its strategic business.

Allowances for Impairment Losses

	Year ended 31 December 2006	Year ended 31 December 2005
	(In millions of RMB)	
Loans and advances to customers	**18,997**	13,706
Available-for-sale securities	**213**	948
Property and equipment	**42**	293
Others	**(38)**	311
Total allowances for impairment losses	**19,214**	15,258

In 2006 the Group's total allowances for impairment losses was RMB19,214 million, representing a year-on-year increase of RMB3,956 million, in which allowances for impairment losses on loans and advances to customers rose by RMB5,291 million; allowances for non-credit impairment losses fell to RMB217 million, RMB1,335 million lower than in 2005.

The main reasons for the rise in the allowances for impairment losses on loans and advances are that the Group extended more loans than in 2005 and increased provisioning accordingly. Meanwhile, changes in the structure of existing non-performing loans ("NPLs") also resulted in more provisioning for the impaired loans.

Income Tax

Income tax for 2006 totalled RMB19,398 million, an increase of RMB11,130 million compared with 2005, largely due to the improved profit before tax, and the income tax exemption of RMB7,848 million, which we enjoyed in the first half of 2005 in relation to our restructuring.

The effective tax rate for 2006 was 29.52%, lower than the statutory tax rate, primarily because the interest income derived from government bonds was not taxable.

Balance Sheet Analysis

Assets

The following table shows the composition of the Group's total assets as at the dates indicated.

	As at 31 December 2006		As at 31 December 2005	
	Amount	**% of total**	Amount	% of total
	(In millions of RMB, except percentages)			
Gross loans and advances to customers	**2,873,609**		2,458,398	
Allowances for impairment losses of loans	**(77,633)**		(63,085)	
Net loans and advances to customers	**2,795,976**	**51.32**	2,395,313	52.23
Investments	**1,909,392**	**35.04**	1,413,871	30.83
Cash and balances with central banks	**539,673**	**9.91**	480,136	10.47
Amounts due from banks and non-bank financial institutions	**82,185**	**1.51**	190,108	4.15
Other assets[1]	**121,285**	**2.22**	106,314	2.32
Total Assets	**5,448,511**	**100.00**	4,585,742	100.00

1. Consist of interest in an associated company, property and equipment, goodwill, deferred tax assets and other assets.

As at 31 December 2006, the Group's total assets amounted to RMB5,448,511 million, representing an increase of RMB862,769 million, or 18.81% as compared with the end of last year, primarily thanks to gains in net loans and advances to customers as well as investments. As a result of its surplus liquidity, the Group increased its investment in debt securities. The investments increased by RMB495,521 million, or 35.05%, higher than the increase rate of net loans and advances to customers. The proportion of investments in total assets also went up by 4.21 percentage points compared with the previous year.

During 2006 the PBOC raised the statutory deposit reserve rates three times. As a result, the Group's cash and balances with central banks increased by RMB59,537 million, or 12.40%. The decline of money market placements and debt securities held under repurchase agreements led to a sharp drop in the net amounts due from banks and non-bank financial institutions.

Loans and Advances to Customers

The following table shows the composition of loans and advances to customers by product type as at the dates indicated.

	As at 31 December 2006		As at 31 December 2005	
	Amount	**% of total**	Amount	% of total
	(In millions of RMB, except percentages)			
Corporate loans	**2,057,961**	**71.62**	1,775,791	72.23
Working capital loans	**991,927**	**34.52**	908,688	36.96
Fixed assets loans	**1,038,240**	**36.13**	842,415	34.27
Infrastructure loans	**711,456**	**24.76**	550,851	22.41
Real estate development loans	**232,649**	**8.10**	190,977	7.77
Technical improvement loans	**90,979**	**3.17**	98,153	3.99
Corporate mortgage loans	**3,156**	**0.10**	2,434	0.10
Other loans[1]	**27,794**	**0.97**	24,688	1.00
Personal loans	**585,085**	**20.36**	453,889	18.46
Residential mortgage loans	**428,039**	**14.90**	348,219	14.16
Personal consumption loans	**72,620**	**2.52**	60,150	2.45
Others loans[2]	**84,426**	**2.94**	45,520	1.85
Discounted bills	**159,368**	**5.55**	194,122	7.90
Operations outside Mainland China	**71,195**	**2.47**	34,596	1.41
Gross loans and advances to customers	**2,873,609**	**100.00**	2,458,398	100.00

1. Primarily consist of factoring, overdrafts, trade finance facilities and on-lending loans.

2. Primarily consist of individual commercial property mortgage loans, personal business loans, credit card overdrafts and education loans.

As at 31 December 2006, gross loans and advances to customers were RMB2,873,609 million, an increase of RMB415,211 million, or 16.89% compared with 2005. Such a sizable increase was chiefly attributable to the strong demand for loans and increased marketing efforts alongside effective risk control.

As at 31 December 2006, the corporate loan balance of RMB2,057,961 million showed an increase of RMB282,170 million, or 15.89% over 2005. As 2006 was the first year of China's Eleventh Five-Year Plan, the increase in new large scale projects drove strong demand for medium to long-term loans, which we were well placed to meet with our advantages in the established businesses. The increase of infrastructure loans accounted for 56.92% of the increase of corporate loans, an increase of RMB160,605 million, or 29.16% against 2005. Real estate development loans also rose by RMB41,672 million, or 21.82% over the previous year. New lending in this area was mainly extended to housing projects and customers with internal credit ratings of A or above.

Personal loans, one of the Group's strategic development priorities, grew by RMB131,196 million, or 28.90% as compared with the end of 2005. With our increasing brand advantage and competitiveness, residential mortgage loans rose by RMB79,820 million, or 22.92% as compared with the end of 2005. The gains in personal credit lines offset the fall in personal automobile loans, and generated an increase of RMB12,470 million in personal consumption loans. Other loans climbed by RMB38,906 million, or 85.47% over 2005, largely due to the rapid growth of individual commercial property mortgage loans and personal business loans.

As at 31 December 2006, the balance of discounted bills was RMB159,368 million, representing a drop of RMB34,754 million against the end of 2005, which was chiefly due to the initiatives taken by the Group in the second half of 2006 to control the bill discounting business, and in particular the growth of relatively low yield inter-bank discounting, so as to satisfy the credit needs of our strategic businesses and quality customers.

Operations outside Mainland China showed a year-on-year rise of 105.79%, mainly attributable to the substantial increase in the Group's total loans outside Mainland China following the acquisition of the Bank of America (Asia) Limited.

Investments

The following table shows the composition of the Group's investments as at the dates indicated:

	As at 31 December 2006		As at 31 December 2005	
	Amount	**% of total**	Amount	% of total
	(In millions of RMB, except percentages)			
Debt investments	**1,353,418**	**70.88**	958,470	67.79
Receivables	**546,357**	**28.62**	443,729	31.38
Equity investments	**9,617**	**0.50**	11,672	0.83
Total investments	**1,909,392**	**100.00**	1,413,871	100.00

As RMB-denominated deposits continued to grow in 2006, creating excess operating funds, the Group increased its investment in debt instruments. In particular, the amount of held-to-maturity debt securities increased by RMB394,735 million, or 61.30% over 2005. Receivables increased by RMB102,628 million, or 23.13%, mainly due to the subscription of designated PBOC bills totalling RMB103,000 million.

Liabilities

The following table shows the composition of the Group's total liabilities as at the dates indicated:

	As at 31 December 2006		As at 31 December 2005	
	Amount	**% of total**	Amount	% of total
	(In millions of RMB, except percentages)			
Deposits from customers	**4,721,256**	**92.24**	4,006,046	93.21
Amounts due to banks and non-bank financial institutions	**243,968**	**4.77**	164,524	3.83
Subordinated bonds issued	**39,917**	**0.78**	39,907	0.93
Other liabilities[1]	**113,166**	**2.21**	87,588	2.03
Total liabilities	**5,118,307**	**100.00**	4,298,065	100.00

1. Consist of amounts due to central banks, certificates of deposit issued, current tax liabilities, deferred tax liabilities, and other liabilities and provisions.

As at 31 December 2006, the Group's total liabilities amounted to RMB5,118,307 million, an increase of RMB820,242 million, or 19.08% against 2005. Deposits from customers remain the Group's primary source of funding, accounting for 92.24% of total liabilities. Owing to the boom of the stock market and the rapid growth of fund issuances volume, securities and funds houses substantially increased their deposits in the Group. This development resulted in amounts due to banks and non-bank financial institutions of RMB243,968 million as at 31 December 2006, RMB79,444 million, or 48.29%, higher than at the end of 2005.

Deposits from Customers

The following table sets forth the Group's deposits from customers by product type as at the dates indicated:

	As at 31 December 2006		As at 31 December 2005	
	Amount	**% of total**	Amount	% of total
	(In millions of RMB, except percentages)			
Corporate deposits	**2,466,284**	**52.23**	2,094,047	52.27
Demand deposits	**1,778,715**	**37.67**	1,474,483	36.81
Time deposits	**687,569**	**14.56**	619,564	15.46
Personal deposits	**2,207,442**	**46.76**	1,897,421	47.37
Demand deposits	**830,402**	**17.59**	708,608	17.69
Time deposits	**1,377,040**	**29.17**	1,188,813	29.68
Operations outside Mainland China	**47,530**	**1.01**	14,578	0.36
Total deposits from customers	**4,721,256**	**100.00**	4,006,046	100.00

As at 31 December 2006, the Group's deposits from customers amounted to RMB4,721,256 million, with an increase of 17.85% against the end of 2005, providing a stable funding source for its lending and investment businesses. Corporate and personal deposits rose by 17.78% and 16.34% respectively. The latter grew at a rate slower than the former, primarily because the active domestic capital market diluted domestic customers' savings. Domestic demand deposits moved up by RMB426,026 million, or 19.51% compared with the end of 2005, higher than the 14.17% growth rate of time deposits. The proportion of demand deposits within domestic customers' deposits moved up by 1.13 percentage points, turning around the condition that a growing part of the customers' deposits were time deposits.

Shareholders' Equity

	As at 31 December 2006	As at 31 December 2005
	(In millions of RMB)	
Share capital	**224,689**	224,689
Capital Reserve	**42,091**	42,091
General reserve	**10,343**	10,332
Retained earnings	**43,092**	4,783
Other reserves[1]	**9,989**	5,782
Total equity attributable to shareholders of the Bank	**330,204**	287,677

1. Consist of statutory surplus reserve, investment revaluation reserve, exchange reserve and minority interests.

As at 31 December 2006, shareholders' equity in the Group amounted to RMB330,204 million, with an increase of RMB42,527 million against the end of the previous year. In accordance with the PRC Company Law of 2005, since 1 January 2006, no further appropriation to the statutory public welfare fund is required, while the fund's pre-existing balance has been transferred to the statutory surplus reserve fund.

Capital Adequacy Ratio

The following table sets forth, as at the dates indicated, the information related to the Group's capital adequacy ratios.

	As at 31 December 2006	As at 31 December 2005
	(In millions of RMB, except percentage)	
Core capital adequacy ratio[1]	**9.92%**	11.08%
Capital adequacy ratio[2]	**12.11%**	13.59%
Components of capital base		
Core capital:		
Paid-up ordinary share capital	**224,689**	224,689
Share premium	**42,091**	42,091
Other reserves[3]	**42,658**	17,429
Minority Interests	**95**	98
Total core capital	**309,533**	284,307
Supplementary capital:		
General provision for doubtful debts	**28,736**	24,584
Term subordinated bonds	**40,000**	40,000
Total supplementary capital	**68,736**	64,584
Total capital base before deductions	**378,269**	348,891
Deductions:		
Goodwill	**(1,743)**	—
Unconsolidated equity investments	**(2,131)**	(787)
Total capital base after deductions	**374,395**	348,104
Total risk-weighted assets[4]	**3,091,089**	2,562,153

1. Core Capital adequacy ratio is calculated by dividing the net amount of core capital after deductions of 100% goodwill and 50% unconsolidated equity investments by risk-weighted assets.
2. Capital adequacy ratio is calculated by dividing the total capital base after deductions with risk-weighted assets.
3. Other reserves have been deducted by the dividend declared by the Bank after balance sheet date.
4. The balances of the total risk-weighted assets include 12.5 times of market risk capital charge.

In accordance with the Regulation Governing Capital Adequacy of Commercial Banks [Order (2004) No. 2] issued by the CBRC, on a consolidated basis, as at 31 December 2006 the Group's capital adequacy ratio was 12.11% and the core capital adequacy ratio was 9.92%, 1.48 and 1.16 percentage points lower than at the end of 2005. This was primarily driven by two factors: the expansion of the asset business, which led to an increase in risk-weighted assets; and the reduction in the capital base as a result of goodwill generated by the Bank's acquisition of the Bank of America (Asia) Limited completed on 29 December 2006 and increase in the carrying values of unconsolidated equity investments.

Loan Quality Analysis

Distribution of Loans by Grading

The following table sets forth, as at the dates indicated, the distribution of the Group's loans by the five-category loan classification under which NPLs include substandard, doubtful and loss loans.

	As at 31 December 2006		As at 31 December 2005	
	Amount	**% of total**	Amount	% of total
	(In millions of RMB, except percentages)			
Normal	**2,513,322**	**87.46**	2,072,969	84.32
Special mention	**265,888**	**9.25**	290,960	11.84
Substandard	**29,261**	**1.02**	42,456	1.73
Doubtful	**55,983**	**1.95**	45,457	1.84
Loss	**9,155**	**0.32**	6,556	0.27
Gross loans and advances to customers	**2,873,609**	**100.00**	2,458,398	100.00
Non-performing loans	**94,399**		94,469	
Non-performing loan ratio		**3.29**		3.84

In 2006 the Group proceeded with the reform of its risk management system, innovation of risk management tools, optimisation of the credit process and adjustment to the credit structure, and the quality of its credit assets continued to improve. Non-performing loans fell from RMB94,469 million at the end of 2005 to RMB94,399 million at the end of 2006, with the NPL ratio dropping from 3.84% to 3.29% during the year.

As the Group attaches great importance to the management of special mention loans, the customer groups identified as having potential risks have been monitored closely. Possible loan losses have been avoided or reduced through restructuring, scaling down of the relevant business, and loan recovery on a case by case basis. In 2006 the proportion of special mention loans in gross loans and advances was reduced from 11.84% at the end of 2005 to 9.25% at the end of 2006.

In 2006 the Group strengthened its efforts to dispose of the NPLs, especially substandard loans with relatively less expected loss. As a result, there is a significant decline in the proportion of substandard loans. Meanwhile, due to the downgrade of some substandard loans, the proportion of doubtful loans rose.

Distribution of Loans and NPLs by Product Type

The following table sets forth, as at the dates indicated, loans and NPLs by product type:

	As at 31 December 2006			As at 31 December 2005		
	Loans	NPLs	% of NPLs to loans	Loans	NPLs	% of NPLs to loans
	(In millions of RMB, except percentages)					
Corporate loans	2,057,961	83,844	4.07	1,775,791	85,654	4.82
Working capital loans	991,927	60,044	6.05	908,688	62,755	6.91
Fixed assets loans	1,038,240	21,075	2.03	842,415	20,560	2.44
Others[1]	27,794	2,725	9.80	24,688	2,339	9.47
Personal loans	585,085	10,378	1.77	453,889	8,668	1.91
Residential mortgage loans	428,039	5,843	1.37	348,219	4,605	1.32
Personal consumption loans	72,620	2,424	3.34	60,150	2,221	3.69
Others[2]	84,426	2,111	2.50	45,520	1,842	4.05
Discounted bills	159,368	—	—	194,122	—	—
Operations outside Mainland China	71,195	177	0.25	34,596	147	0.42
Total	2,873,609	94,399	3.29	2,458,398	94,469	3.84

1. Primarily consist of factoring, overdrafts, trade finance facilities and on-lending loans.
2. Primarily consist of individual commercial property mortgage loans, personal business loans, credit card overdrafts and education loans.

In terms of product structure, the quality of both corporate and personal loans improved, with their NPL ratios at the end of 2006 falling by 0.75 and 0.14 percentage points compared with the end of 2005 respectively.

Personal credit business developed rapidly, and with this expansion came greater credit risk exposure. Accordingly, the Bank has implemented strict lending criteria for personal loans, and rigorously screened credit applicants during the credit application process. Teams specialising in the assessment of personal loans have been put in place to control the quality of new loans. At the same time, the Bank has appointed special agencies to collect and dispose of NPLs promptly, and established a standardised collection process for personal loans.

Distribution of Corporate Loans and NPLs by Industry

	As at 31 December 2006				As at 31 December 2005			
	Loans	% of total	NPLs	% of NPLs to loans	Loans	% of total	NPLs	% of NPLs to loans
	(In millions of RMB, except percentages)							
Corporate loans	**2,057,961**	**71.62**	**83,844**	**4.07**	1,775,791	72.23	85,654	4.82
Manufacturing	**510,427**	**17.76**	**28,791**	**5.64**	433,104	17.61	25,967	6.00
Transportation, storage and postal services	**326,715**	**11.37**	**4,932**	**1.51**	278,532	11.33	5,512	1.98
Production and supply of electric power, gas and water	**318,493**	**11.08**	**4,348**	**1.37**	265,647	10.81	7,918	2.98
Property development	**302,290**	**10.52**	**18,290**	**6.05**	256,396	10.43	17,611	6.87
Construction	**96,580**	**3.36**	**3,755**	**3.89**	86,855	3.53	4,443	5.12
Water, environment and public utility	**92,173**	**3.21**	**1,400**	**1.52**	75,959	3.09	1,320	1.74
Education	**77,458**	**2.69**	**1,234**	**1.59**	63,395	2.58	644	1.02
Wholesale and retail	**73,526**	**2.56**	**8,170**	**11.11**	63,179	2.57	7,926	12.55
Leasing and commercial services	**63,659**	**2.22**	**3,119**	**4.90**	47,444	1.93	3,236	6.82
Telecommunications, computer services and software	**38,962**	**1.36**	**1,452**	**3.73**	60,304	2.45	1,494	2.48
Mining	**55,909**	**1.95**	**672**	**1.20**	49,332	2.01	717	1.45
Others[1]	**101,769**	**3.54**	**7,681**	**7.55**	95,644	3.89	8,866	9.27
Personal loans	**585,085**	**20.36**	**10,378**	**1.77**	453,889	18.46	8,668	1.91
Discounted bills	**159,368**	**5.55**	**—**	**—**	194,122	7.90	—	—
Operations outside Mainland China	**71,195**	**2.47**	**177**	**0.25**	34,596	1.41	147	0.42
Total	**2,873,609**	**100.00**	**94,399**	**3.29**	2,458,398	100.00	94,469	3.84

1. Primarily consist of healthcare, social security and social welfare; culture, sports and entertainment; government agencies and non-government organisations.

In 2006 the Group saw the NPL ratios all falling for industries that took up the largest proportions of the Group's lending business, i.e. manufacturing; transportation, storage and postal services; production and supply of electric power, gas and water; and property development. The NPL ratio for education, including school properties, local and corporate schools, worsened because of the deterioration of certain borrowers' financial position.

The Bank has put in place industry rating and internal rating systems, which can identify those industries with regulatory restrictions, excess capacity and stagnant development so that timely adjustments can be made to our credit approval criteria. Priority has been given to those customers with good development prospects and financial conditions, stable source of repayment and good credit records; whereas credit has not been granted to those enterprises that are not compatible with macroeconomic adjustment policies. The Bank also has specialised departments and expertise tracking the development of various industries and providing forward-looking guidance on the credit business development for these industries.

Strategic Transformation to Enhance Core Competitiveness

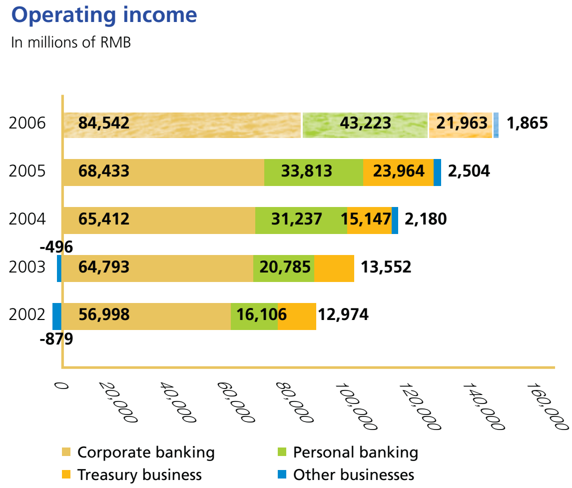
Wholesale Business	Wholesale & Retail Businesses
Traditional Business	Traditional & New Businesses
Interest Income	Interest Income & Non-interest Income
Domestic Market	Domestic & Overseas Markets

Business Operations

In 2006 we focused our efforts on business transformation and structural adjustment. We actively expanded our quality customer base and strived to strengthen our leading position in financial products and services for which we enjoy traditional advantages. We also vigorously developed our retail banking, international business, treasury operations, and wealth management in order to explore new business opportunities and gain new profit growth points. As a result, we achieved some initial success in business transformation, and the income from various businesses steadily increased.

According to the PBOC, as at 31 December 2006 our market share of total loans in the PRC was 12%, while our market share of total deposits was 13.4%. The Group's operating income increased by 17.78% to RMB151,593 million over 2005, in which corporate banking, personal banking, treasury operations, and other businesses including overseas business accounted for 55.77%, 28.51%, 14.49% and 1.23% respectively.

The chart below sets out the operating income over the last five years for each respective line of business:



Note: Other businesses include equity investments, overseas operations, and head office income and expenses that can be neither attributed directly to a segment nor allocated on a reasonable basis.

Corporate banking remains the Group's major source of income and the foundation of our strategic development.

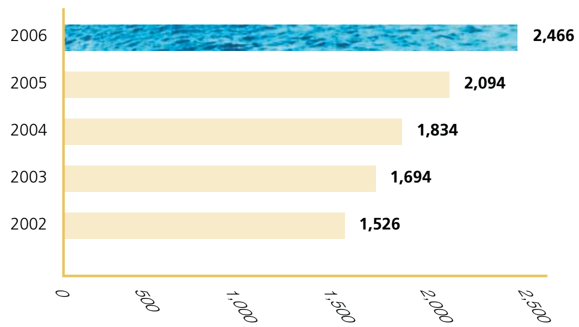
Corporate Banking

In 2006 the profit before tax for corporate banking reached RMB36,642 million, accounting for 55.76% of the profit before tax of the Group. As at 31 December 2006, corporate loans totalled RMB2,057,961 million, an increase of 15.89% compared to the end of 2005, while corporate deposits amounted to RMB2,466,284 million, a rise of 17.78% compared to the end of 2005.

The following charts set out the development of the Group's corporate banking business over the past five years:

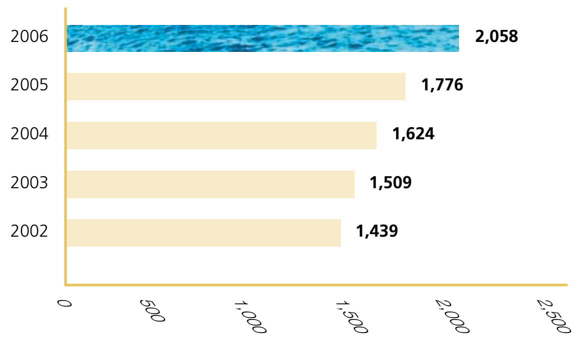
Corporate deposits

In billions of RMB



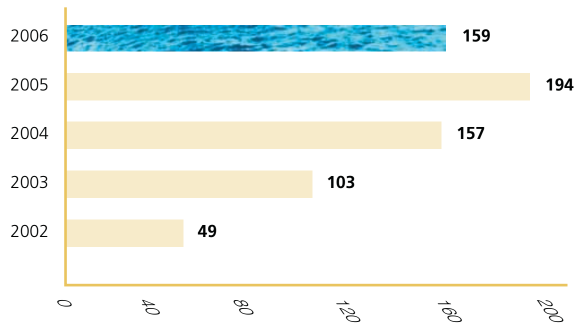
Corporate loans

In billions of RMB



Discounted bills

In billions of RMB



China's Eleventh Five-Year Plan began in 2006, resulting in robust demand for medium and long-term corporate loans. The Group strengthened its leading position in this area by intensifying marketing efforts and expanding quality customer base. In 2006 the amount of fixed asset loans increased by 23.25% over 2005 to RMB1,038,240 million, of which the increase in infrastructure loans accounted for 56.92% of the increase in corporate loans. As at the end of 2006, the balance of corporate loans granted to customers with internal credit ratings of A or above increased by 5.7 percentage points to 83.56% of our total corporate loan balance over 2005.

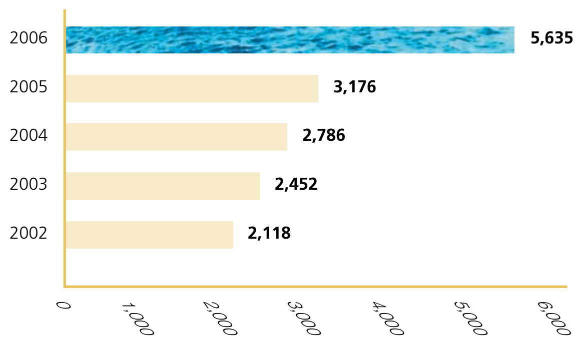
The small-sized enterprise business is regarded as one of our strategic priorities because of its great growth potential and expected contribution to the optimisation of our income structure. In 2006 we actively explored the effective operating model for small-sized enterprise business, implemented a standardised credit process, increased market penetration of our brands such as "Quick Finance" and "Road of Growth", and developed specialised customer service teams, resulting in the healthy development of this business. By the end of 2006, we had processed 4,796 "Quick Finance" and "Road of Growth" customer accounts. The accumulated balance of loans extended was RMB18,937 million, with the NPL ratio at only 0.07%. Our "Quick Finance" business was awarded as the "Best Financing Solution for Small and Medium-sized Enterprises" by the Association of Small and Medium Enterprises under the National Development and Reform Commission together with China Banking Association.

With the introduction and improvement of key fee and commission based services, we enhanced the market competitiveness of our agency, remittance, settlement and custodial services by optimising operating procedures, strengthening our internal performance evaluation system, and clarifying operational responsibilities. These initiatives drove up the proportion of net fee and commission income in our total corporate banking income. Net fee and commission income from corporate banking reached RMB5,635 million for 2006, 77.42% higher than in 2005.

The development of the Group's net corporate fee and commission income over the past five years are set out below:

Net corporate fee and commission income

In millions of RMB



- In 2006 income from funds settlement agency services for institutional customers and insurance agency services increased by 78.3% and 63.9% respectively. We maintained our leading position in payment processing of public finance and independent custodial services for securities settlement funds. We also successfully introduced funds settlement services for shares transfer of unlisted companies. We were the first pilot bank to provide standardised warehouse receipt lending services, and got a seat on the futures exchange for collateral transactions. Furthermore, we also became the only pilot bank to provide independent custodial services for B-share securities settlement funds.

- International settlements rose by USD49,397 million over 2005 to USD190,322 million in 2006; maintaining consecutive increases of over 30% for the last four years. Income from international settlement business of RMB2,019 million was realised, 51.7% higher than in 2005.

- As at the end of 2006, total net value of assets under custody reached RMB265,238 million, with an increase of 118.57% over 2005, of which, net asset value of securities investment funds under custody amounted to RMB192,352 million, a significant increase of 141.58% over 2005; assets of Qualified Foreign Institutional Investors ("QFIIs") under custody amounted to USD900 million, an increase of 63.63% over 2005; and securities assets such as insurance funds, social security funds and enterprise pension totalled RMB59,725 million, rising 204.42% over 2005. Accumulated income from the custodial business reached RMB209 million, a year-on-year increase of 69.92%.

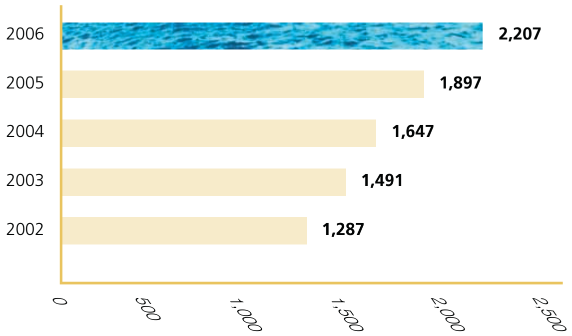
The development of the retail banking business is the most important part of the Group's business transformation.

Personal Banking

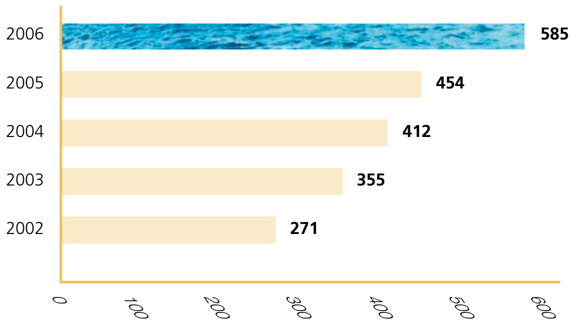
In 2006 residential mortgages, personal consumption loans and bank card business made great progress as a result of our product innovation and improvement in service quality. Profit before tax for personal banking was RMB10,655 million, accounting for 16.21% of the Group's profit before tax.

The development of the Group's personal banking business over the past five years are set out below:

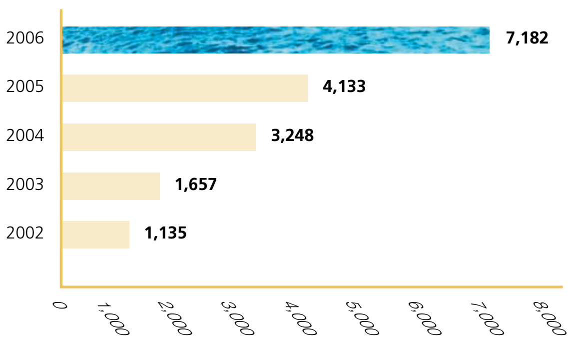
Personal deposits
In billions of RMB



Personal loans
In billions of RMB



Net personal fee and commission income
In millions of RMB



Personal deposits grew steadily

In 2006 we became the first PRC bank to enable our individual customers to deposit and withdraw time and demand RMB deposits across different branches all over the country. Our All in One Call Deposit Account provided our customers with a more flexible large deposit service at a higher return. As at 31 December 2006, the balance of the Group's personal deposits amounted to RMB2,207,442 million, an increase of 16.34% compared to the end of 2005, and accounted for 46.76% of total deposits from customers with a market share of 13.15%.

Personal loans increased significantly

The balance and increase of our personal loans reached record highs in 2006. As at 31 December 2006, total personal loans were RMB585,085 million, an increase of RMB131,196 million or 28.90% compared to the end of the previous year, and represented 20.36% of total customer loans and advances, an increase of 1.90 percentage points over 2005.

In 2006 we enhanced the innovation and integration of our personal lending products and services, introducing new products such as home equity loans and fixed rate loans as well as providing flexible repayment methods. We also worked with second-hand housing agencies and actively developed mortgage products for personal second-hand housing to satisfy the diversified needs of our customers. The residential mortgage business developed quickly with optimised business processes, improved service quality and coordinated marketing efforts, and we became the largest provider of residential mortgage loans. As at 31 December 2006, the balance of residential mortgage loans reached RMB428,039 million, an increase of RMB79,820 million or 22.92%. Personal consumption loans and other personal loans grew by 48.62% to RMB157,046 million in 2006. Personal consumption loans and personal business loans have become new growth engines fuelling our business development.

We retained our leading position in entrusted housing finance business. In 2006 we provided entrusted services of withdrawal of and repayment with provident housing funds, as well as electronic service channels, to enable Chinese citizens to deposit, withdraw and enquire about their provident housing funds more conveniently. As at 31 December 2006, provident housing fund deposits totalled RMB186,158 million, an increase of RMB43,597 million compared to 2005, with a market share of 59.58%; the balance of provident housing fund loans amounted to RMB186,834 million, an increase of RMB44,860 million over 2005, with a market share of 51.30%; an accumulated amount of RMB83,220 million was extended to 605,100 customers during the year.

Bank card business developed rapidly

The brand of Long Card was further enhanced with the continued development of new card products alongside improvements in our bank card services. At the end of 2006, the total number of Long credit cards and quasi-credit cards issued reached 10.06 million. The cumulative number of credit cards issued was 6.34 million, of which 3.22 million cards was issued in 2006. A total of RMB40,467 million was spent by cardholders during the year. The number of credit card issued and card spending amount during the year both posted more than 100% year-on-year growth. Following on from the release of the Renowned University Credit Card, we launched the Corporate Credit Card for the top 500 enterprises, and the City Credit Card for customers in major cities.

By the end of 2006, we had issued 186 million debit cards in total, which represented an increase of 20.47 million over 2005. Spending via debit cards in 2006 reached RMB212.50 billion, an increase of 69.2% over 2005. Fee and commission income from debit cards climbed to RMB2,880 million, representing a 17.6% rise compared to 2005. Our "Happy Investor" personal wealth management cards were promoted throughout the country in 2006, and services such as overseas and online transactions, and mobile phone short messaging services were also launched successfully. Our wealth management cards were awarded "Leading Comprehensive Debit Card Product in the World" by VISA International.

Enriched personal wealth management products

With the continuous growth of income, Chinese citizens have more diversified needs for personal wealth management. We exploited our brand advantage from "Profit from Interest" and "Profit from Exchange", and launched a number of innovative personal wealth management products to satisfy different needs of our customers. In 2006 we issued 19 batches of "Profit from Interest" RMB wealth management product; one phase of "CCB Fortune" wealth management product for high-net-worth customers; 17 batches of "Profit from Exchange" personal foreign exchange structured deposit product and two batches of "Profit from Exchange" QDII product; and developed asset allocation plans and tailor-made wealth management products for our VIP customers. All these products were well received by customers. The underlying assets of our wealth management products broadened from central bank bills to include commercial paper, trust plans, bank credit assets as well as overseas fixed income products.

We have always paid great attention to the selection of quality fund companies, and with the boom of China's capital market in 2006, we seized the opportunity to become actively involved in the provision of agency services for equity funds, and became the first commercial bank to provide agency service for Exchange Traded Fund ("ETF") transactions in the PRC. In 2006 we provided agency services to 33 initially offered funds with an amount of RMB64,600 million, representing an increase of RMB54,567 million, or 543.88% compared with the previous year. In 2006 ten open-end funds under our custody enjoyed yields exceeding 100%, accounting for 23% of the total open-end funds under our custody. The higher returns helped to establish a solid customer base for our future fund agency business.

In 2006 we intensified our product innovation efforts in gold products, and introduced the pending order and block trade discount functions for the Account Gold. We also launched "Longding Gold" zodiac animal commemorative coins for our personal physical gold business. As at the end of 2006, the amount of gold transacted through Account Gold reached 30.2 tons, 24.6 times higher than in 2005. The physical gold transacted reached 486.21 kg, an increase of 13.1 times over 2005.

Treasury Operations continue to expand and have become a major source of income for the Group.

Treasury Operations

At the end of 2006, our treasury assets amounted to RMB2,199,334 million, and the profit before tax from treasury operations in 2006 totalled RMB18,348 million, 27.92% of the Group's profit before tax.

During 2006 with significantly increased treasury funds, we actively adapted our bond investment strategies in line with market changes:

- We adopted an active but prudent foreign currency investment strategy. We significantly increased our asset-backed or mortgage-backed securities, and corporate bonds, and moderately increased spread products such as callable bonds to optimise the structure and enhance the performance of our foreign currency investment portfolio.

- On the RMB side, we strived to lower our surplus deposit reserve rate to increase the return of our funds. We maintained a relative stable duration of the RMB investment portfolio, adjusted the structure of our bond investments, and moderately increased corporate credit products so as to achieve a stable improvement in our return.

In 2006 the volume of repurchase transactions reached RMB2,258.5 billion while inter-bank lending transactions totalled RMB82.3 billion. The Bank underwrote RMB747.4 billion of government and quasi-government bonds, subordinated debts, central bank bills, commercial paper and corporate bonds, a 30.62% increase over the previous year. The total transaction volume in the secondary bond market amounted to RMB311.3 billion, an increase of 102.54% over the previous year.

We seized the opportunity of the reform of RMB exchange rate regime to launch foreign exchange trading and foreign exchange purchases and sales businesses for our customers. The Bank was among the first qualified market makers in 2006 to participate in foreign exchange purchases and sales in the RMB inter-bank market. The volume of foreign exchange trading, as well as purchases and sales of foreign exchange on behalf of customers reached USD123.3 billion, representing a 27.51% year-on-year increase.

In 2006 we continued to promote customer-driven business, and customer-driven derivative transactions showed significant growth, rising by 89.43% over the year to USD8,903 million. Of this, the volume of transactions for corporate and institutional customers and for personal customers amounted to USD5,282 million and USD3,621 million respectively, increases of 63.52% and 139.49% over the previous year.

The development of our overseas business and subsidiaries serves our comprehensive and international operating strategy.

Overseas Business and Subsidiaries

We have overseas branches in Hong Kong, Singapore, Frankfurt, Johannesburg, Tokyo and Seoul. There are also representative offices in London and New York. As at the end of 2006, the Group's total assets of overseas operations totalled RMB115,162 million, while the profit before tax for the year was RMB543 million.

In 2006 we expanded our overseas markets steadily by strengthening the coordination between our overseas and domestic branches, and continuously optimised our business structure with enhanced services. A solid foundation has been laid for the globalisation of our network for customer services,

marketing activities and business operations. As an important part of our overseas business development strategy, the Bank acquired a 100% equity interest in Bank of America (Asia) Limited in Hong Kong, a wholly owned subsidiary of BAC, and its subsidiaries. At present, we are integrating the branches and resources in Hong Kong to provide better financial services to our customers in Mainland China, Hong Kong and Macau.

At the end of 2006, the Bank had the following major subsidiaries:

China Construction Bank (Asia) Corporation Limited, formerly known as Bank of America (Asia) Limited, provides a wide range of personal and commercial banking services to customers, and is one of the 24 licensed banks registered in Hong Kong. As a typical small and medium-sized retail bank in the Hong Kong market, it has 14 branches in Hong Kong and 3 branches in Macau. As at the end of 2006, its total assets amounted to HKD36,895 million, and the profit before tax for the year was HKD734 million.

China Construction Bank (Asia) Limited, formerly known as Jian Sing Bank Limited, is a licensed commercial bank registered in Hong Kong, and a wholly owned subsidiary of the Bank. Its principal activities are deposit-taking, the provision of loans, fee and commission based services such as foreign exchange, letter of credit, guarantees and agency services, to local small and medium-sized enterprises. As at the end of 2006, its total assets amounted to HKD3,463 million, while profit before tax in 2006 was HKD262 million. The investment banking arm, CCB International (Holdings) Limited, is one of its subsidiaries.

Sino-German Bausparkasse Corporation Limited was jointly established by the Bank and Bausparkasse Schwaebisch Hall in February 2004 with RMB150 million of registered capital, of which 75.1% was contributed by the Bank. It is primarily engaged in the provision of services such as home savings deposit-taking, provision of home savings loans, inter-bank lending, investment in debt securities, and extension of personal mortgages.

We established CCB Principal Asset Management Co., Ltd. in September 2005 with Principal Financial Services, Inc and China Huadian Group Corporation. The Bank holds 65% and the other two parties hold 25% and 10% respectively of the RMB200 million registered capital. At the end of 2006, three funds were managed by CCB Principal Asset Management Co. Ltd., with the size and performance of the funds growing in a healthy manner.

Investment banking is an important part of our comprehensive operating strategy.

Investment Banking

As enterprises have more financing channels, the profit margin for traditional deposit and lending business will be narrowed to some extent. Market competition will become fiercer following the complete opening up of the China's financial sector. To fully capitalise on new growth opportunities such as capital market development and satisfy diversified customer needs for services such as wealth management, we have begun to actively develop our investment banking business as part of our pilot comprehensive operations.

As an important initiative of our business transformation, in September 2006 we re-established the investment banking department and developed investment banking services across the Bank. Major products and services include commercial paper, international bonds, trust beneficiary certificates, asset securitisation, project finance, enterprise's initial public offering and refinance, equity investment, financial advisory, and wealth management, with an aim of providing customers with a package of financial solutions.

In 2006 financial advisory fees from investment banking amounted to RMB880 million. Underwritten commercial paper totalled RMB65,775 million, allowing us to retain our prime market position. A wide range of wealth management products has been launched to satisfy customers' diversified and personal investment needs.

While strengthening and expanding our market share of existing products, we will focus our efforts on the innovation of investment banking products and businesses. In compliance with regulatory policies, we will actively commence operations such as trust, securities, asset management, asset securitisation and financial derivatives.

We attach great importance to the role of distribution channels in customer services and business development. The extensive and improved branch network is an important component of our competitiveness.

Distribution Channels

Distribution capability of electronic banking steadily strengthened

Since electronic banking is one of our most important distribution channels and strategic business sectors, we set ourselves the strategic objective to develop a world class electronic banking business. In 2006 we put more resources in electronic banking, consolidated the foundation of our business development, and strengthened the interaction between different distribution channels and marketing efforts. As a result, our electronic banking distribution capability was greatly enhanced, and both the influence and awareness of our brand increased. As at the end of 2006, we had 43.29 million electronic banking customers, an increase of 38% over the previous year. The number of transactions rose by 132% over the previous year to 810.80 million, and transaction volume was RMB30.7 trillion, representing a year-on-year increase of 227%.

In October 2006, we launched a new version of personal Internet banking to provide our customers with a faster, more convenient, and more secure online banking service. New Internet banking functions were introduced such as electronic reconciliation statements for enterprises, provident fund business, wealth management card business, individual to corporate remittances, and inter-bank transfers, all of which significantly pushed forward the development of our business. The Bank was awarded the "Best Internet Bank in 2006" by China Electronic Commerce Association.

Our VIP service system is a lease-line banking system based on the electronic settlement network, which can provide real-time account monitoring and a series of customer-based real-time transaction functions to major customers. In 2006 we introduced products such as the centralised management of bills, real-time transmission of account information, as well as centralised management of financial companies' funds, and have provided cash management services to numerous large corporate groups. New VIP service system products, including the monitoring system of special financial funds of the central government, the information system on futures margins and the fund settlement system for transfers of unlisted shares were also developed, which increased our market competitiveness. Our VIP service system won the first prize at the PBOC's Science and Technology Development Awards in 2006.

In order to establish a distributed centralised customer service structure to further strengthen our dominant position in intensive operations, we established a "95533" call centre in Chengdu in 2006, which successfully took over the manual customer services operation of 16 branches. The "95533" customer service was linked to 800 credit card customer service hotlines. "95533" was recognised as one of the "Top Ten Service Brands in China" and the "Best Customer Service in China", which are the highest awards in the domestic call centre service.

Our mobile phone banking services are at the forefront of providing superior business functions, customer experience and security in the PRC. In 2006 all of our 38 tier-one branches launched WAP mobile phone banking services, in which 37 tier-one branches worked together with mobile communication operators to provide short message services. Service functions relating to debit cards, provident funds and wealth management cards were introduced via mobile phone banking. We were also the first to launch domestic mobile stock trading services, which augmented our wealth management mobile phone banking functionality.

We further developed e-channel integration by linking channels such as the call centre, Internet banking and mobile phone banking together into one access point and combining service processes to achieve cross channel service connections.

Broad coverage of branch network

Our distribution network primarily consists of branches, sub-branches, sub-operating offices and deposit-taking offices. As at the end of 2006, the Bank had 13,629 domestic outlets.

In order to better provide differentiated services to our VIP customers, we set up a VIP customer service channel. As at the end of 2006, we were operating six wealth management centres, 702 banking centres, 3,177 wealth management offices and 10,660 wealth management windows, which represented an increase of three wealth management centres, 359 banking centres, 1,854 wealth management offices and 4,014 wealth management windows respectively over the previous year.

ATMs and self-service banking centres continuously increased

We continue to focus our efforts on developing a wider range of self-service banking products and raising our service levels. As at the end of 2006, we had 1,646 self-service banking centres, an increase of 765 over the previous year. The number of ATMs installed and in operation rose by 4,370, or 29% over the previous year, to a total of 19,490.

Information technology is an important measure to support the business development and management enhancement.

Information Technology

In 2006 we continued to invest more resources in our information technology (IT), and actively developed application systems to improve our overall IT management level, including architecture and security management , project management and operational management.

In 2006 based on the data consolidation for our core business processing systems during the previous year, we accelerated data centralisation of the business processing systems for credit, distribution channels, call centres, as well as the accounting system for expenses and fixed assets to further optimise business processes, support business development and enhance our risk prevention ability. The implementation of the new personal loan system together with the establishment of the personal loan centre, strengthened our capacity of innovation in personal loan products, increasing our business management efficiency, and enhancing risk control. We have developed a new credit process management system that covers the entire corporate loan process and offers various credit functions, which has helped to standardise our corporate loan operating procedures.

In July 2006, we started strategic cooperation with BAC in six areas, encompassing resource management, infrastructure consolidation, business continuity planning, quality management of application development, IT project governance and operation process management, with an aim to reaching international standard in our IT management.

We are committed to attracting, retaining and motivating qualified managers and professionals. We are also proud of having a large team of professional, diligent and loyal staff.

Employees

At the end of 2006, we had 297,506 staff members of whom 96,117, or 32.3% completed undergraduate or higher courses.

The following table sets forth the total number of employees by function as at 31 December 2006.

	Number of employees	% of total
Corporate banking	32,582	10.95
Personal banking	131,673	44.26
Treasury operations	414	0.14
Finance and accounting	36,812	12.37
Management	14,457	4.86
Risk management, internal audit, legal and compliances	11,201	3.76
Information technology	10,568	3.55
Others[1]	59,799	20.11
Total	297,506	100.00

1. Primarily consist of supporting staff.

We attach great importance to personnel training and development, and develop our employees' knowledge and experience and push them through career paths via career potential development, job rotation, simulation exercises, quality evaluations, and degree and certification education. Training provided by our strategic investors' resources, BAC and Temasek, have accelerated the development of core personnel's professionalism in an international context. In 2006 we provided 7,071 training sessions with 402,200 enrolments.

We continue to deepen our human resources management reform, and improve the remuneration and performance policies with the concepts of performance-oriented compensation based on post, result and work ability, while building harmonious labour relationship. Incentives and disciplines have been strengthened by the implementation of an evaluation system based on key performance indicators for key positions. In order to facilitate the integration of both our employees' and shareholders' interests, we are actively seeking to implement a management share appreciation rights scheme, and employee stock ownership plans in accordance with the long-term incentive scheme approved by the general meeting of shareholders.

In 2006 we launched the CCB Outstanding Contribution Award, our highest honour, to recognise outstanding contributions made by our employees to the Bank's reform and development. This great company honour was awarded to twelve employees this year, with each of them receiving a financial award ranging from RMB100,000 to 300,000 in recognition of their outstanding performance.

Chairman Guo Shuqing and President Zhang Jianguo presented the Outstanding Contribution Award to the Bank's employees.

中国建设银行
China Construction Bank

An outstanding bank provides premier services rendered by dedicated staff

Risk Management

In 2006 the Group focused on the reform of its risk management system, and improved risk management processes in order to maintain a prudent operating style. Aligning the business development with its risk appetite, it strives to enhance the risk-adjusted return within its risk tolerance level.

Reform of the Risk Management System

- ***Vertical risk management***

At the head office, the specialisation of our risk management was strengthened with the appointment of the chief risk officer and the establishment of a risk monitoring department. At the branch level, risk management personnel have been appointed under the principle of cross-regional exchanges. By the end of 2006, risk supervisors for all tier-one branches and risk heads for all tier-two branches had been installed (with tier-one branches' risk supervisors appointed by the head office, and tier-two branches' risk heads nominated by tier-one branches and approved by the head office). Dedicated or concurrent risk managers were also appointed for certain county-level branches. Risk management personnel are responsible for initiating the implementation of the overall risk management, and serve as lead credit approval officers for their respective units. Their first reporting line is to risk management officers at higher levels, with an additional reporting line to managers of their respective entities or business units. These systematic arrangements protect the independence of risk management, and help to achieve the vertical and centralised risk management and ensure the sustained improvement of the Bank's asset quality.

- ***Parallel operation structure***

A parallel operation structure, comprising relationship and risk managers, has been applied to credit extensions to large and medium-sized corporate customers. Risk managers participate in every aspect of the risk management process from credit analysis to post-disbursement management. Both relationship and risk managers participate in customer evaluation and project assessment during the pre-approval process, and provide risk evaluation opinions on the credit application materials. Before loans are extended, risk managers must examine whether all the conditions for credit extension have been met. After the disbursement of loans, risk managers continue to identify credit risks, and provide warnings of any new potential risks. This parallel operation is now smoothly promoted across the Bank.

Enhanced Risk Management Mechanism

- ***Authorisation system***

The Bank has continued to improve its authorisation system as demanded by the reform of its corporate governance and the risk management system. In 2006 policies relating to the granting of management powers to the President by the Board, and in turn to general managers at branches by the President, as well as plans for the delegation of authority for credit approvals in corporate and retail lending were rationalised to emphasize that the level of authority acquired is based on the results of evaluation of risk management capability.

- ***Internal control evaluation***

Under the specific requirements of the risk management committee and audit committee of the Board, the Group has conducted a systematic analysis and assessment of internal control capabilities (including control environment; risk identification and assessment; internal control activities; monitoring, evaluation and correction; as well as information and communication), and has implemented improvement initiatives in view of the problems identified. Please refer to the internal control part of the "Report of the Board of Directors" for details.

- ***Improvement on economic capital management***

The Group has made sustained efforts to optimise the methods of measuring and allocating economic capital, and to apply these methods to resource allocation, performance evaluation and risk monitoring, so as to enhance the guiding and binding effects of risk tools upon operating activities. In 2006 the following improvements were made: measuring the allocation of economic capital across the Bank by applying an asset volatility approach to corporate exposure, and linking economic capital to unexpected risks more closely; updating the economic capital allocation plan and incorporating it into the comprehensive budget of operations; strengthening the dynamic monitoring over the application of economic capital, and starting to develop the software for economic capital measurement.

- ***Evaluation of branch risk management***

Since 2006 the Bank has adopted a series of key performance indicators to regularly and comprehensively test and evaluate risk management at tier-one branch level. These tests highlight any deficiencies in branch risk management so that improvements in related areas are urged.

Credit Risk Management

The Group has further enhanced the credit risk management level by improving the credit risk management process and upgrading risk management technology.

Improved Framework of Rules in Credit Risk Management

In 2006 the Bank issued new credit management policies and credit approval standards for corporate and institutional businesses, amended the measures for estimation of impairment losses on credit assets and provisioning, and proposed a series of policies such as the manual for the management of the twelve-category risk classification of credit assets. Both project assessment and risk monitoring were revised to further improve the applicability and accuracy of the system and the policies.

Enhanced Credit Risk Management Process

The Group's credit risk management encompasses credit analysis, credit approval and post-disbursement management of the credit business. During credit origination and analysis, the internal rating system is used to perform customer credit risk ratings and to produce customer evaluation reports. A comprehensive evaluation is also conducted for the risk and return of the loan. During the credit approval process, any credit extension must be either reviewed and approved by two authorised managers, or countersigned, or approved at a credit approval meeting. During the post-disbursement management process, all extended loans are monitored on an ongoing basis. Any negative event, which could significantly affect the borrower's repayment ability, must be reported immediately, and effective measures are then taken to avoid and control related risks.

For the personal credit business, the Group has established personal loan centres in 100 major city branches and key tier-two branches. Functions such as investigation, approval, pledge registration, disbursement, collection and file management are assigned to personal loan centres, and batch processing is centralised at middle and back offices. These initiatives enhanced service quality and efficiency, reduced operational risks arising from dispersed operations, and helped to standardise credit access criteria across the Group. In line with the establishment of the personal loan centres, the Group has set up approval teams within these centres, or established personal credit business approval centres to raise the professionalism of personal credit approval. In addition, the special assets resolution department established and improved a standard operating process for the collection of personal loans, which further ensured the standardisation of personal loan collection.

Development of Risk Management Technology

In 2006 the Bank improved its Credit Management Information System ("CMIS") and the first phase of internal rating system in line with new business and management requirements. A Non-credit Asset Risk Management Information System ("NARMIS") was also developed and implemented across the Bank. All these systems provide quantitative analysis support to customer ratings, asset portfolio analysis, and risk limits monitoring as well as economic capital management.

A corporate lending process system and a new personal lending system were implemented in some branches to standardise the credit business process, reduce operational risks, and provide more comprehensive data for CMIS.

In line with the implementation of the New Basel Capital Accord, the Bank has pressed on with the development of an internal rating system, the first phase of which carries out corporate customer credit ratings and measures systemic risk by various criteria such as industry, geographical area and product. The second phase of the internal rating system is in development with the cooperation of BAC. This phase will primarily focus on the internal rating of retail exposures, and include enhancement for the grading of corporate exposures as well.

Liquidity Risk Management

The core strategy of the Group's liquidity management is to avoid risk and maximise value by improving established rules, rationalising operational systems, and adopting various measures to strengthen daily management. This strategy has resulted in the reduction in both the surplus reserve rate and the liquidity position, and led to improved efficiency of fund utilisation while ensuring sufficient liquidity.

The Bank has formulated a series of guidelines, such as a liquidity management contingency plan, to regulate and refine liquidity management, and enhanced the contingency mechanism for internal fund management.

The Group has successively optimised the RMB and foreign currency fund transfer system between head office and branches. As a result, the efficiency of fund transfer has greatly improved.

A designated liquifiable asset portfolio has been delimited from its existing treasury investment portfolio, and includes highly-liquid assets such as purchases under resale agreements, short-term PBOC bills and government bonds, and a multi-layered stock of liquid assets has been created.

With the recommencement of initial public offerings in the domestic stock market and the PBOC's frequent adjustments to monetary policies in 2006, the Bank reinforced its internal liquidity management and made overall fund arrangements in advance, which offset the impact of large cash inflows and outflows, and guaranteed normal payment and settlement at a relatively low reserve level.

The analysis of the remaining maturity of the Group's assets and liabilities as at the balance sheet date is set below:

	As at 31 December 2006						
	Overdue/ repayable on demand	Less than three months	Between three months and one year	Between one year and five years	More than five years	Undated	Total
	(In millions of RMB)						
Assets							
Cash and balances with central banks	133,958	—	—	—	—	405,715	539,673
Amounts due from banks and non-bank financial institutions	12,921	64,047	4,879	338	—	—	82,185
Loans and advances to customers	59,289	350,341	839,969	837,069	709,308	—	2,795,976
Investments							
— Receivables	—	—	128,211	341,744	76,402	—	546,357
— Held-to-maturity debt securities	—	145,060	255,120	384,962	253,571	—	1,038,713
— Available-for-sale investments	—	58,853	112,038	50,633	87,565	9,617	318,706
— Debt securities at fair value through profit or loss	—	611	741	3,321	943	—	5,616
Others	2,324	17,125	19,125	3,224	683	78,804	121,285
Total assets	208,492	636,037	1,360,083	1,621,291	1,128,472	494,136	5,448,511
Liabilities							
Amounts due to central banks	21	1,235	—	—	—	—	1,256
Amounts due to banks and non-bank financial institutions	203,870	35,150	4,698	250	—	—	243,968
Deposits from customers	2,641,787	731,050	998,144	336,958	13,317	—	4,721,256
Certificates of deposit issued	—	—	1,806	5,151	—	—	6,957
Others	45,967	20,895	25,434	8,395	4,237	25	104,953
Subordinated bonds issued	—	—	—	—	39,917	—	39,917
Total liabilities	2,891,645	788,330	1,030,082	350,754	57,471	25	5,118,307
Long/(short) positions in 2006	(2,683,153)	(152,293)	330,001	1,270,537	1,071,001	494,111	330,204
Long/(short) positions in 2005	(2,118,250)	(28,807)	182,971	1,119,770	762,110	369,883	287,677

As at the end of 2006, the Group's accumulated gap of various maturities amounted to RMB330,204 million, an increase of RMB42,527 million over 2005; both the short-term negative gap and the medium to long-term positive gaps widened. In 2006 the capital market became more active, and with expectations of interest rate hikes, there was a faster growth of customers' demand deposits, which led to the negative gap for overdue/ repayable on demand totalled RMB2,683,153 million. However, our funding source remained stable for the Group had a relatively high proportion of core demand deposit.

Market Risk Management

The Group has gradually established and improved the market risk management mechanism, while continuing to enhance the measurement methods and techniques.

During 2006 the first phase of the asset and liability management information system was launched, which served as a technical base for the identification, measurement and monitoring of market risks across the Bank. The Bank also developed a market risk capital reporting system to measure market risk capital charge. Currently, the Bank has adopted market risk measurement techniques that are internationally accepted, to measure and monitor market risks in banking and trading books. The tools applied to the trading book mainly include value-at-risk ("VAR") analysis, sensitivity analysis and stress testing, while those applied to the banking book primarily include gap/position analysis, net interest income simulation, economic value analysis and stress testing.

Procedures for regular reporting on market risks, as well as ad hoc reporting on material issues have been preliminarily established. Daily reports are prepared on market risk in treasury activities; quarterly reviews and analysis are conducted on the implementation of market risk management policies and investment strategies; and market risk analysis reports containing relevant management proposals are regularly provided. Senior management are informed of any risks which could have a material impact on the Group in a timely manner.

Interest Rate Risk Management

The primary source of interest rate risk is the mismatches between the repricing dates of assets and liabilities. The Group regularly calculates the interest rate sensitivity gap, and assesses the impact of interest rate changes upon its net interest income and economic value under various scenarios of interest rate movements, and conducts stress testing on a regular basis.

The analysis of the expected repricing dates (or maturity dates whichever are earlier) of the Group's assets and liabilities as at the balance sheet date is set below:

	As at 31 December 2006					
	Total	Non-interest-bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
	(In millions of RMB)					
Assets						
Cash and balances with central banks	539,673	30,191	509,482	—	—	—
Amounts due from banks and non-bank financial institutions	82,185	—	77,067	4,879	239	—
Loans and advances to customers	2,795,976	—	1,200,801	1,532,253	38,106	24,816
Investments	1,909,392	9,617	269,623	618,099	597,663	414,390
Others	121,285	121,285	—	—	—	—
Total assets	5,448,511	161,093	2,056,973	2,155,231	636,008	439,206
Liabilities						
Amounts due to central banks	1,256	—	1,256	—	—	—
Amounts due to banks and non-bank financial institutions	243,968	—	239,020	4,698	250	—
Deposits from customers	4,721,256	36,346	3,348,482	989,439	335,151	11,838
Certificates of deposit issued	6,957	—	4,718	1,443	796	—
Others	104,953	104,953	—	—	—	—
Subordinated bonds issued	39,917	—	—	9,917	30,000	—
Total liabilities	5,118,307	141,299	3,593,476	1,005,497	366,197	11,838
Repricing gap in 2006	330,204	19,794	(1,536,503)	1,149,734	269,811	427,368
Accumulated repricing gap in 2006			(1,536,503)	(386,769)	(116,958)	310,410
Repricing gap in 2005	287,677	23,558	(1,142,437)	831,770	352,551	222,235
Accumulated repricing gap in 2005			(1,142,437)	(310,667)	41,884	264,119

As at 31 December 2006, the Group's accumulated negative interest rate sensitivity gap within one year widened by RMB76,102 million to RMB386,769 million over 2005, which was primarily due to the growth of the negative gap within three months exceeded that of the positive gap between three months and one year. The proportion of demand deposits in customers' deposits rose from 54.52% at the end of 2005 to 55.42% at the end of 2006, with an increase of RMB432,539 million in the ending balance, led to the widening of the negative gap within three months for the Group. The ratio of accumulative negative gap within one year to the interest-earning assets at the end of year is 7.31%, only 0.31 percentage points higher than that at the end of the previous year.

The Group performs VAR analysis on its foreign currency-denominated investment portfolio to measure and monitor the potential losses on positions due to shifts in factors such as interest rates and exchange rates. With a 99% confidence level and a one-day holding period, the Group used historical simulations to measure the following VARs of its domestic portfolio for foreign currency-denominated trading book in 2005 and 2006 respectively:

	2006				2005			
	Year end	**Daily average**	**Maximum value**	**Minimum value**	Year end	Daily average	Maximum value	Minimum value
	(In millions of RMB)							
Interest rate risk	**61.35**	**107.39**	**168.47**	**15.85**	144.23	70.56	213.26	4.74
Foreign exchange risk	**2.07**	**5.79**	**7.27**	**0.33**	14.62	9.11	0.17	0.88
Diversified portfolio risk	**(2.01)**	**(5.81)**	**(8.17)**	**(0.29)**	(11.00)	(5.15)	(0.33)	(0.20)
Total portfolio risk	**61.41**	**107.37**	**167.57**	**15.89**	147.85	74.52	213.10	5.42

Note: The VAR at the end of 2006 fell drastically, largely because a USD/HKD2,470 million forward contract entered into during 2005 expired before the end of 2006.

A regular interest rate risk reporting mechanism has been set up by the Group, so that a monitoring system is being implemented. The Group uses derivatives such as interest rate swaps and options to hedge interest rate risk associated with its foreign currency business. On the other hand, since interest rate hedging tools have not been adequately developed in the RMB market, the Group manages RMB interest rate risk largely by adjusting business volumes and maturity profiles.

Foreign Exchange Risk Management

The Group is exposed to foreign exchange risks primarily because it holds deposits, loans, marketable securities and other financial derivatives that are denominated in currencies other than RMB. The Group's foreign exchange risks comprise structural positions and trading positions, and different strategies are applied to manage each of these positions.

The Group mitigates structural exchange risks by matching assets and liabilities based on the currency involved. The amounts and periods of lending and borrowing are matched, as far as possible, on a currency-by-currency basis. Whenever possible, open positions are hedged with instruments such as spot and forward contracts as well as swaps and options.

Trading exchange risk is the Group's foreign exchange exposure from customer-driven and proprietary foreign exchange purchases and sales, foreign exchange trading and foreign exchange derivative business. The Group controls the trading exchange risk by setting a trading limit. The Group uses the asset and liability management information system to measure and monitor structural and trading exchange risks on a daily basis.

Operational Risk Management

Operational risk is the potential of loss resulting from inadequate or failed internal processes, people and systems, or from external events. The Group's operating units are responsible for assessing their operational risk and implementing related risk management policies and procedures. The risk management and risk monitoring departments regularly evaluate the compliance of various departments with the relevant policies and procedures.

The Group has undertaken the following key operational risk management initiatives:

— Established internal reporting procedures for any employee misconduct that adversely affects the Group's business. Under the internal reporting system, data relating to incidents of employee misconduct must be reported to the head office on a periodic basis, while serious cases must be reported within 24 hours after discovery;

— Strengthened operational checks and balances among departments and job positions, and introduced centralised job appointments as well as the rotations for key positions via systematic authorisation and operational arrangements;

— Implemented data backup from critical data processing systems to reduce operational risk due to IT system failure. The Group is now in the process of developing a computer disaster recovery centre for the automatic backup of operational data;

— Undertaken pilot projects for the self-assessment of operational risks. These trial projects were initiated in pilot branches to identify potential deficiency via self-assessment of operational risks. Risk managers have been appointed to control frequently occurring problems;

— Collected and accumulated operational risk loss data to determine the category of operational risks and the classification of loss data, which will act as a foundation for the development of quantitative measurement tools.

In 2006 the Group completed its operational risk management policy, which built the general framework, and set the roles, responsibilities, processes and principles of operational risk management. The document has been reviewed and approved by the Board's risk management committee.

Reporting and Monitoring of Non-compliance

By the end of 2006, 44 criminal offences committed by the Bank's employees, totalling RMB82.718 million, had been reported to the head office. Both the volume and the values involved in these offences were considerably lower than those of the previous year. Of these, 12 cases involved a sum of RMB1 million or more, totalling RMB72.758 million. Staff misconduct showed that internal controls were still not sufficient in some of the Group's branches. Nevertheless, these criminal offences have not, individually or in the aggregate, had any material adverse effects on the Group's business, financial conditions or operating results.

Internal Audit

The Group has continuously enhanced the internal audit system, which is vertically managed by the head office, with stronger audit teams, enhanced audit standards and new audit techniques, to fully support internal audit's role in the risk management, internal control and corporate governance.

During 2006 the Group's internal audit department adopted a risk-based audit approach for branches and business products, focusing on core areas and products, centralising useful resources, and strengthening quality management. A total of 15 system audit projects were conducted, including: audits on comprehensive business operations and investigations into the competitiveness of branches in certain central cities to make full use of audit evaluation and recommendations; verification of the five-category corporate loan classification and the new NPLs as well as a financial management audit to reinforce the audit efforts in key areas; specialised audits of credit cards, investment in debt securities, funds clearance, and electronic channels to pay more attention to new businesses. Other audits completed during the year included those relating to the economic accountability of the management during their tenure, the insurance agency business, corporate entrusted loans, interest rates related data and information quality, overseas entities, non-credit assets, the credit business. Auditing divisions from each branch also commenced more than 3,000 self-selected audits as required. With the continued enhancement of auditing depth and quality, our risk prevention ability and the standardisation of operating procedures across the Bank have been improved.

CORPORATE SOCIAL RESPONSIBILITY

While expanding our banking business and achieving good operating results, we demonstrated our strong social commitment to corporate citizenship by contributing to charitable and social causes such as culture, education, sports, natural disaster appeals, and poverty alleviation.

Our efforts to fulfil our role as a corporate citizen have gained wide recognition and support. In 2006 we were awarded the "China Red Cross Universal Fraternity Medal" by the Red Cross Society of China, and named as the "Most Responsible Corporate Citizen" for 2006 by the Red Cross Society of China and other co-organisers in a national selection, as well as becoming the only leading commercial bank named as one of the "Top 100 Chinese Most Socially-Responsible Enterprises" by China Central Television and other co-organisers.

Cultural Development Support

- Since 2005, we have been a supporter and sponsor of the Beijing International Music Festival. This year we were again the chief sponsor in cooperation with the Beijing International Music Festival Arts Fund, and provided RMB2 million support. We will continue to sponsor this grand musical event for the next four years.

- We supported the Inner Mongolia Broadcasting & TV Art Ensemble with RMB3 million. The ensemble creates and performs ethnic musical works, and as chief sponsor, we were able to assist it promoting the preservation and development of traditional culture heritage.

- To promote the preservation of the natural ecological environment and folk culture in Chinese rural areas, we donated RMB1 million to each of Xiabaiyan Buyi Ethnic Minority Water Dwellings Cultural Museum in Libo County and Shao Zhai Long March and Dong Ethnic Minority Cultural Museum in Liping County of Guizhou Province. (Picture 1)

Educational Development Support

- As of the end of 2006, the CCB Caring Foundation, established through employee donations, has made donations with a cumulative amount of RMB5 million to the China Youth Development Fund to create 25 CCB HOPE primary schools in impoverished or disaster-stricken areas throughout 14 provinces, autonomous regions and municipalities. There are now 5,598 students in these schools. The local education conditions have been improved to some extent through our efforts. (Picture 2)

- In 2005, we signed a strategic cooperation agreement with the Red Cross Society of China. We donated RMB3 million to local Red Cross societies to subsidise poor students from schools in partnership with us.

- In 2006 we donated RMB3 million to Tsinghua University to fund CCB Scholarships and Bursaries and the CCB Book Foundation.

- In 2002, we and China Children and Teenagers' Fund launched the "Charity through Pocket Money" campaign to provide children in impoverished regions with educational opportunities. We donated RMB1 million for the production of donation boxes that were placed in our 5,000 branches throughout China. By the end of 2006, our cumulative donations to China Children and Teenagers' Fund had reached RMB3.27 million. In recognition of our outstanding contribution to the campaign, we were named as the "Most Caring Organisation for Children" by the Fund in January 2007. (Picture 3)

Sports Development Support

- We became the cooperating partner-sponsor of the 2007 Special Olympics World Summer Games, which will be held in Shanghai in October 2007. Our support for the games is designed to help athletes with intellectual disabilities to realise their full potential, develop their physical fitness, demonstrate their courage, and enjoy life as well as friendship.

Active Response to Disasters

- Via the Red Cross Society of China, we donated RMB4.5 million to the areas stricken by Typhoon Bilis in Fujian, Guangdong, Hunan, Guangxi, Jiangxi, and Zhejiang for the re-construction of rural schools and medical premises that were destroyed by floods. Our branch employees in these affected areas also donated RMB1.2 million to the local victims.

Support to Poverty Alleviation and Relief Activities

- In 2006 we donated RMB3 million to the China Foundation for Poverty Alleviation to provide relief to the poor in rural China. (Picture 4)

- We donated RMB1 million to the Ministry of Justice and the China Disabled Persons' Federation to support their campaign of giving legal aid to the disabled and to raise national consciousness of the disabled and the protection of their dignity and rights.

In recognition of our continued efforts to alleviate poverty in China and our strong social commitment to corporate citizenship, we were presented with the Special Contribution to Poverty Alleviation Award in China and the Annual Contribution Award for the Walk for Poverty Alleviation in China for 2006 by the China Foundation for Poverty Alleviation.

Xie Duyang, chairman of the board of supervisors, participated in the press conference of the Bank and BAC's joint partnership with 2007 Special Olympics World Summer Games and presented souvenirs to the athletes.

Our Bank is committed to maintaining a high level of corporate governance. We abide strictly by the laws and regulations of the jurisdictions in which we operate, and observe the guidelines and rules issued by Hong Kong regulatory authorities. We endeavour to adhere to international and domestic corporate governance best practices.

We have complied with the code provisions of the Code on Corporate Governance Practices ("Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") throughout the year ended 31 December 2006, and have substantially complied with the recommended best practices set out in the Code.

General Meeting of Shareholders

Responsibilities of the General Meeting of Shareholders

The general meeting of shareholders, composed of all shareholders of the Bank, is the primary authoritative body of the Bank, whose primary roles include but are not limited to:

- determining the operating guidelines and investment plans of the Bank;
- electing and replacing directors and supervisors (except for employee representative supervisors), and determining remuneration of directors and supervisors;

- deliberating and approving annual financial budget plans, final accounting plans, profit distribution plans and loss coverage plans;
- adopting resolutions related to the increase or reduction of registered capital, and merger, split, dissolution and liquidation of the Bank;
- adopting resolutions related to the issue and listing of corporate bonds or other securities;
- adopting resolutions related to material acquisitions and the repurchase of shares of the Bank;
- adopting resolutions to engage, remove or discontinue the services of accounting firms;
- amending the Articles of Association and other fundamental corporate governance documents of the Bank.

During the course of 2006, the Bank held one annual general meeting of shareholders and one extraordinary general meeting of shareholders .

Board of Directors

Responsibilities of the Board

The Board is the executive body of the general meeting of shareholders, which is accountable to the general meeting of shareholders, and performs the following duties in accordance with relevant laws:

- convening the general meeting of shareholders and reporting to the general meeting of shareholders;
- implementing the resolutions of the general meeting of shareholders ;
- deciding on operational plans and investment plans of the Bank;
- preparing annual financial budget plans, final accounting plans, profit distribution plans and loss recovery plans;
- preparing plans related to the increase or reduction of registered capital; the issue and listing of convertible bonds, subordinate bonds, corporate bonds or other securities; and plans related to merger, split, dissolution and liquidation of the Bank;
- preparing plans relating to material acquisitions and the repurchase of shares of the Bank;
- exercising other powers authorised by the general meeting of shareholders and under the Articles of Association of the Bank.

The primary roles of the Board are to determine the objectives, strategies, policies and business plans of the Bank, supervise and control operations and financial performance, and formulate appropriate risk control policies to ensure that our strategic objectives can be achieved.

Composition of the Board

Our Board comprises 16 directors, including four executive directors, namely Mr. Guo Shuqing, Mr. Zhang Jianguo, Mr. Zhao Lin and Mr. Luo Zhefu, seven non-executive directors, namely Mr. Zhu Zhenmin, Mr. Jing Xuecheng, Ms. Wang Shumin, Mr. Wang Yonggang, Mr. Liu Xianghui, Mr. Zhang Xiangdong and Mr. Gregory L. Curl, and five independent non-executive directors, namely Mr. Song Fengming, Mr. Yashiro Masamoto, Mr. Tse Hau Yin, Aloysius, Ms. Elaine La Roche and Lord Peter Levene.

The biographies of our directors are set out in "Profiles of Directors, Supervisors and Senior Management". The information can also be found on our website at www.ccb.com.

Chairman and President

Mr. Guo Shuqing is the chairman of our Board, and is responsible for our business strategy and overall development. The chairman is our legal representative. Mr. Zhang Jianguo is the president of the Bank, and is responsible for the day-to-day management of our business and operations. Our president is appointed by the Board, accountable to the Board, and discharges his duties in accordance with the Articles of Association and the scope of delegation by the Board. The roles of the chairman and the president are separate and their duties are clearly defined.

Appointment and Re-election of Directors

The term of office of directors is three years (commencing from the date of their appointment by election and ending on the date of the annual general meeting of the final year of the term of their office), and they may be re-elected upon expiration of their three years term.

In 2006 Mr. Zhang Jianguo was appointed as vice chairman of the Board and executive director of the Bank, Mr. Luo Zhefu was appointed as an executive director of the Bank, and Lord Peter Levene was appointed as an independent non-executive director of the Bank. Mr. Chang Zhenming and Ms. Liu Shulan resigned from their posts of executive director.

The term of office of the first Board will end on the date of the forthcoming 2006 annual general meeting, at which the following directors will stand for re-election to the second Board: executive directors Mr. Guo Shuqing, Mr. Zhang Jianguo, Mr. Zhao Lin and Mr. Luo Zhefu, non-executive directors Ms. Wang Shumin, Mr. Wang Yonggang, Mr. Liu Xianghui, Mr. Zhang Xiangdong and Mr. Gregory L. Curl, and independent non-executive directors Mr. Song Fengming, Mr. Tse Hau Yin, Aloysius, Ms. Elaine La Roche and Lord Peter Levene. The directors are eligible and have offered themselves for re-election. Mr. Wang Yong will be nominated as non-executive director of the Bank at the forthcoming 2006 annual general meeting.

Operation of the Board

The Board has regular meetings, generally not less than four times per year, and extraordinary meetings are convened if and when required. Directors may attend meetings in person or participate via other means of communication.

Directors are consulted to include matters in the agenda for regular Board meetings. Board meeting papers and background materials are usually circulated to directors fourteen days in advance of Board meetings.

All directors have access to the advice and services of the secretary to the Board and company secretary, with a view to ensuring compliance with Board procedures and all applicable rules and regulations. Detailed minutes of Board meetings are kept, and minutes are circulated to all attending directors for review after the meeting. Directors will provide comments after receiving the minutes. After the minutes have been approved, the secretary to the Board sends the finalised minutes to all directors promptly. Minutes of the Board meetings are kept by the secretary to the Board and are open for inspection by directors from time to time.

The Board and each director have separate and independent access to the senior executives in order to raise enquiries on management issues. Our president reports his work to the Board on a regular basis, and is supervised by the Board. Other senior executives are from time to time invited to attend Board meetings to make presentations or answer the Board's questions.

At Board meetings, an open environment exists in which directors can put forward alternative views and major decisions are only made after a full discussion. Individual directors may also retain outside advisers, at our expense, to provide independent professional advice if he/she deems necessary. If any director has material interests in a matter proposed by the Board, the director concerned is not counted in the quorum of the proposal and must abstain from discussion and voting on the relevant proposal.

Induction programmes are organised to provide trainings for new directors and to assist them in becoming familiar with our management, operations and governance practices. We periodically organise trainings for all directors, and encourage them to participate in continuing professional development seminars and courses organised by qualified institutions to ensure that they continually update their skills and are kept abreast of the latest development or changes to the laws and regulations, Listing Rules and corporate governance practices required to enable them to properly discharge their responsibilities.

We have directors' liability insurance policies in place for all of our directors in 2006.

Securities Transactions by Directors

The Bank has adopted a code of practice in relation to securities transactions by directors and supervisors in terms no less exacting than those set out in the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Listing Rules. Upon enquiry, all of the directors and supervisors confirm that during the year ended 31 December 2006, they have complied with the provisions of this code of practice in relation to securities transactions. None of our directors, supervisors or senior management holds any securities in the Bank.

Board Meetings

Individual attendance records of the directors in Board meetings and Board committee meetings in 2006 are set out as follows:

	Number of meetings attended/Number of meetings during term of office					
Directors	**Board**	**Strategy development committee**	**Audit committee**	**Risk management committee**	**Nomination and compensation committee**	**Related party transactions committee**
Executive Directors						
Mr. Guo Shuqing	13/13	5/5				
Mr. Zhang Jianguo	3/3	1/1		2/2		
Mr. Zhao Lin	13/13			8/8	6/6	4/4
Mr. Luo Zhefu	7/7	2/2		4/4		
Non-executive Director						
Mr. Zhu Zhenmin	13/13	5/5			9/9	
Mr. Jing Xuecheng	13/13	5/5		7/8		
Ms. Wang Shumin	13/13	5/5	8/8			
Mr. Wang Yonggang	13/13	5/5	8/8			
Mr. Liu Xianghui	13/13	5/5		8/8	3/3	
Mr. Zhang Xiangdong	13/13	5/5		8/8		
Mr. Gregory L. Curl	13/13	5/5	8/8		9/9	
Independent Non-executive Directors						
Mr. Song Fengming	13/13		8/8	8/8	9/9	9/9
Mr. Yashiro Masamoto	13/13	5/5	8/8	8/8	9/9	
Mr. Tse Hau Yin, Aloysius	13/13		8/8	4/4	9/9	9/9
Ms. Elaine La Roche	13/13	5/5	8/8		9/9	
Lord Peter Levene	3/3	1/1		2/2		
Resigned Directors						
Mr. Chang Zhenming	6/6	3/3		4/4		
Ms. Liu Shulan	2/2	2/2				4/4

Delegation by the Board

The division of power between the Board and senior management is in strict compliance with our Articles of Association and other corporate governance documents.

By virtue of the authority conferred on him by the Board, the president decides operational, management and decision-making issues within his scope of authority. Specifically, his scope of authority includes:

- being in charge of the operation and management of the Bank and initiating the implementation of Board resolutions;
- proposing operational plans and investment proposals of the Bank to the Board and initiating the implementation of such plans or proposals upon approval by the Board;
- developing proposals for establishment of the internal management departments within the Bank;

- developing the general management system for the Bank and formulating specific rules and regulations for the Bank;

- proposing to the Board the appointment or dismissal of vice presidents and other senior management officers (excluding the chief auditor and the secretary to the Board);

- other authority conferred on him by the Board and the Articles of Association of the Bank.

Accountability of the Directors in Relation to the Financial Statements

The directors are responsible for overseeing the preparation of the financial statements for each fiscal period to give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the financial statements for the year ended 31 December 2006, the directors have selected appropriate accounting policies and applied them consistently, and made judgements and estimates that are prudent and reasonable. In accordance with the Listing Rules, we have announced our annual financial results within four months after the end of the relevant period.

Internal Control

The Board is responsible for the internal control system of the Bank and reviews the effectiveness of the relevant systems through the risk management committee and audit committee. In accordance with relevant laws and regulations stipulated by the regulatory authorities, we have formulated and implemented a series of internal control rules, procedures and methods to ensure the quality of accounting information and the safety and intactness of our assets.

In 2006 the Board carried out an internal control assessment project. The internal control assessment plan was designed on the basis of regulatory rules and our constitutional documents and took into account our organisational structure and business operation model. The assessment included five components: internal control environment; risk identification and assessment; internal control measures; information and communication; and monitoring and rectification. The internal control assessment was carried out by way of self-assessment, which involved our directors, supervisors, senior management and other employees. The overall objective was to review the internal control environment of the Group, standardise internal control systems and procedures and maintain legal operations and continuing development. During 2006, no major issues have been identified, and appropriate measures have been taken to address areas identified for improvement.

Information about the risk management structure and the policies and procedures for management of each of the major types of risk the Group faces, including credit risk, liquidity risk, market risk and operational risks, are included in the risk management part of the "Management Discussion and Analysis", and in note 37 to the "Financial Statements".

Committees under the Board

There are five committees established under the Board: the strategy development committee, audit committee, risk management committee, nomination and compensation committee and related party transactions committee. Among these committees, the audit committee, nomination and compensation committee and related party transactions committee are chaired by our independent non-executive directors, and more than half of the committee members are independent non-executive directors.

Strategy Development Committee

Our strategy development committee consists of thirteen directors: Mr. Guo Shuqing, Mr. Zhang Jianguo, Mr. Luo Zhefu, Mr. Zhu Zhenmin, Mr. Jing Xuecheng, Ms. Wang Shumin, Mr. Wang Yonggang, Mr. Liu Xianghui, Mr. Zhang Xiangdong, Mr. Gregory L. Curl, Mr. Yashiro Masamoto, Ms. Elaine La Roche and Lord Peter Levene. Mr. Guo Shuqing, chairman of the Board, currently serves as chairman of our strategy development committee.

The primary responsibilities of the strategy development committee include:

- drafting medium to long-term strategic development plans, and assessing implementation thereof;
- reviewing annual operational plans and financial budgets of the Bank;
- reviewing strategic capital allocation plans and asset and liability management targets;
- evaluating the coordinated development of various financial businesses;
- reviewing material restructuring and re-organisation plans; and
- reviewing significant investment and financing projects.

In 2006 the strategy development committee of the Board attached great importance to the material operational strategy of the Bank and submitted preliminary review opinions on the budget, operational plans, overseas development strategy, material investment plans and institutional readjustment of the Bank. The committee also heard special reports with regard to key issues on strategic transformation, and studied such issues as enhancing the retail business, promoting services for small and medium-sized enterprises, conducting diversified operations and considering corresponding strategies for corporate culture and talent attraction. Furthermore, it discussed and studied such issues as amendments to the Bank's strategic outline for operational development and the improvement of budget management.

Audit Committee

Our audit committee consists of seven directors: Mr. Tse Hau Yin, Aloysius, Ms. Wang Shumin, Mr. Wang Yonggang, Mr. Gregory L.

Curl, Mr. Song Fengming, Mr. Yashiro Masamoto and Ms. Elaine La Roche. Our independent non-executive director Mr. Tse Hau Yin, Aloysius, an internationally qualified accountant, currently serves as chairman of the audit committee and Mr. Wang Yonggang is a senior accountant. Both of them have extensive experience in financial matters or possess expertise in the relevant financial management. None of the audit committee members are currently members of the former or existing auditors of our Bank nor have any relationships with them.

The primary responsibilities of our audit committee include:

- monitoring the preparation of our financial statements, reviewing the disclosure of our accounting information and significant events;
- monitoring and assessing our internal controls;
- monitoring the compliance level of our core operating units, management procedures and principal business activities;
- monitoring and assessing the performance of our internal audit function;
- monitoring and assessing the performance of our external auditors, proposing to the Board the appointment or removal of external auditors, and facilitating the communication between external auditors and internal audit function; and
- reporting to the Board the performance of the audit committee, and communicating and coordinating with other Board committees.

The terms of reference of the audit committee have included the duties set out in C.3.3(a) to (n) of the Code, with appropriate modifications where necessary.

In 2006 the audit committee improved communications with internal auditing divisions, by being informed of internal auditing work in a timely manner, learning through the auditing process and correcting problems, and examining and determining the internal auditing plan for 2007 and long-term working plan. The audit committee prepared a set of detailed work rules for the chief auditor and submitted it to the Board for approval and adoption. The audit committee attached importance to the construction of an internal control system for financial and accounting reporting, organised Bank-wide appraisal work, and urged the management to establish a procedure for lodging complaints and uncovering material financial issues.

The audit committee strengthened the supervision over and appraisal of external auditors and prepared an appraisal method and appraisal system. The committee also put the requirements of the general meeting of shareholders and Board of 2005 into effect and conducted the selection by tender of the external auditors for 2007. Additionally, the committee held separate meetings with external auditors and assisted in the preparation of guidelines in order to regulate the provision of non-auditing services by external auditors.

Risk Management Committee

Our risk management committee consists of ten directors: Mr. Zhang Xiangdong, Mr. Zhang Jianguo, Mr. Zhao Lin, Mr. Luo Zhefu, Mr. Jing Xuecheng, Mr. Liu Xianghui, Mr. Song Fengming, Mr. Yashiro Masamoto, Mr. Tse Hau Yin, Aloysius and Lord Peter Levene. Non-executive director Mr. Zhang Xiangdong is the chairman of the risk management committee.

The primary responsibilities of our risk management committee include:

- formulating and amending our risk strategy and risk management policies in accordance with our overall strategy and monitoring and evaluating their implementation;
- providing guidance on building our risk management and internal control systems, and supervising and assessing our internal control systems;
- monitoring and assessing the effectiveness of the organisational structure, reporting lines, working procedures and effects of risk management, and proposing changes for improvements;
- conducting periodic assessments of our risk management and internal control system, and providing their opinions in relation to further improvements; and
- evaluating the performance of our chief risk officer.

In 2006 the risk management committee paid great attention to the asset quality of the Bank, regularly listened to reports on overall risk management status, and pushed the senior management to strengthen overall risk management. The committee also studied the risk management system reforms of the Bank; carried out the internal control system assessment jointly with the audit committee; received reports on non-compliance cases of the branches; investigated and studied the risk management platform; and actively cooperated with regulatory authority in inspections.

Nomination and Compensation Committee

Our nomination and compensation committee consists of seven directors: Mr. Yashiro Masamoto, Mr. Zhu Zhenmin, Mr. Liu Xianghui, Mr. Gregory L. Curl, Mr. Song Fengming, Mr. Tse Hau Yin, Aloysius, and Ms. Elaine La Roche. Our independent non-executive director Mr. Yashiro Masamoto currently serves as chairman of the nomination and compensation committee.

The primary responsibilities of the nomination and compensation committee include:

- formulating procedures and criteria for the selection and appointment of directors and senior management;
- proposing candidates for directors, presidents, chief auditor, secretary to the Board and Board committee members;

- evaluating candidates for senior management nominated by the president;
- formulating development plans for senior management and other key executives;
- drafting performance evaluation procedures for directors and senior management, and compensation plans for directors, supervisors and senior management;
- reviewing the compensation system submitted by the president;
- proposing and drafting the performance evaluation system for directors and senior management, and the compensation evaluation system for directors, supervisors and senior management;
- proposing the compensation of directors and senior management;
- proposing the compensation of supervisors in accordance with the opinion of the board of supervisors; and
- monitoring the implementation of the Bank's performance and compensation evaluation system.

The terms of reference of the nomination and compensation committee have included the specific duties set out in Rules B.1.3(a) to (f) of the Code, with appropriate modifications where necessary.

When making recommendations in respect of the candidates for directors, president, chief auditor, secretary to the Board and other key positions, the nomination and compensation committee primarily takes into account their educational background and working experience as well as the specific conditions and requirements of the Bank.

Regarding nomination, in 2006 the nomination and compensation committee considered proposals for nominating independent non-executive directors, adjusting the composition of the Board committees and nominating members of the Board committees. The committee also submitted proposals on candidates for directors, presidents, secretary to the Board and other important management positions.

Regarding compensation, in 2006 the nomination and compensation committee organised the determination of the compensation to directors, supervisors and senior management for 2005, formulated detailed implementation rules for the compensation distribution of directors, supervisors, senior management for 2006, organised the signing of target undertakings with executive directors and senior management, organised the amendment to the measures for compensation allocation of directors, supervisors and senior management, organised the formulation and implementation of liability insurance plans for directors, supervisors and senior employees, and studied the employee share incentive scheme.

Related Party Transactions Committee

Our related party transactions committee consists of three directors: Mr. Song Fengming, Mr. Zhao Lin and Mr. Tse Hau Yin, Aloysius. Our independent non-executive director Mr. Song Fengming currently serves as chairman of our related party transactions committee.

The primary responsibilities of our related party transactions committee include:

- formulating and proposing standards for material related party transactions and the system for management of related party transactions, as well as the internal approval and reporting system of the Bank;
- identifying our related parties;
- receiving reports on related party transactions, and if necessary approving related party transactions; and
- reviewing material related party transactions.

In 2006 pursuant to relevant regulation, the related party transactions committee reviewed related party transactions, amended the measures for the management of related party transactions and submitted it to the Board and general meeting of shareholders for examination and approval. The related party transactions committee also established the regular reporting system for related party transactions, regularly listened to information on the occurance of related party transactions and on the progress of relevant work, kept up-to-date on the management of related party transactions, and further clarified the work process and method for identifying related parties.

Board of Supervisors

Responsibilities of the Board of Supervisors

The board of supervisors, being the supervisory authority of the Bank, is accountable to the general meeting of shareholders and performs the following duties in accordance with relevant laws:

- supervising the performance of the Board, senior management and their members;
- requiring the directors, chairman of the Board and senior management to correct their acts that infringe the interests of the Bank and all of its shareholders;
- inspecting and supervising the financial activities of the Bank;
- verifying the financial information, including the financial report, business report and profit distribution proposal, proposed to the general meeting of shareholders by the Board;

- conducting audits on the business decisions, risk management and internal control of the Bank according to its discretion and giving guidance on the internal audit work of the Bank; and
- exercising other powers authorised by the general meeting of shareholders and the Articles of Association of the Bank.

Composition of the Board of Supervisors

Our board of supervisors consists of nine supervisors, comprising four shareholder representative supervisors, namely Mr. Xie Duyang, Ms. Liu Jin, Mr. Jin Panshi and Ms. Chen Yueming, three employee representative supervisors, namely Ms. Cheng Meifen, Mr. Sun Zhixin and Ms. Ning Liming, and two external supervisors, namely Mr. Cui Jianmin and Mr. Guo Feng.

A list of our supervisors and their dates of appointment and biographies are set out in "Profiles of Directors, Supervisors and Senior Management". The information can also be found on our website at www.ccb.com.

Chairman of the Board of Supervisors

Mr. Xie Duyang is the chairman of the board of supervisors of the Bank and is responsible for organising the performance of duties of the board of supervisors.

Appointment and Re-election of Supervisors

The term of office of supervisors is three years, and they may be re-elected upon expiration of their term of office. Shareholder representative supervisors and external supervisors of the Bank are elected by the general meeting of shareholders, and employee representative supervisors of the Bank are elected by the employees' representative agency.

In 2006 Mr. Sun Zhixin and Ms. Ning Liming were appointed as employee representative supervisors.

The term of office of the first board of supervisors will end on the date of the forthcoming 2006 annual general meeting, at which the following supervisors (excluding employee representative supervisors) will stand for re-election to the second board of supervisors: shareholder representative supervisors Mr. Xie Duyang, Ms. Liu Jin and Mr. Jin Panshi, and external supervisor Mr. Guo Feng. The supervisors are eligible and have offered themselves for re-election by the shareholders. Mr. Dai Deming will be nominated as external supervisor of the Bank at the forthcoming 2006 annual general meeting.

Operation of the Board of Supervisors

The board of supervisors has regular meetings, generally not less than four times per year, and extraordinary meetings are convened, if and when required. Supervisors are notified in writing 10 days prior to the convening of the board of supervisors' meeting. Matters concerning such meeting are specified in the written notice. During the meeting, the supervisors are free to express their opinions and decisions on important matters are only made after detailed discussion.

Minutes are prepared for the meetings of the board of supervisors. At the end of each meeting, minutes will be provided to all attending supervisors for examination and comments. After finalising the minutes, the office of the board of supervisors shall be responsible for distributing the final version of the minutes to all supervisors.

The board of supervisors may engage external advisors in legal or accounting areas as it deems necessary to discharge its duties, and the Bank will bear all related expenses. The Bank takes necessary measures and methods to ensure the right of information of the supervisors, and provide relevant information to them in accordance with related regulations.

Members of the board of supervisors attend the Board meeting as non-voting attendees, and the board of supervisors may as it consider appropriate assign supervisors to attend as non-voting attendees such meetings of the Bank as annual work conference, symposia of general managers of branches, analytic meetings on operation conditions, and president executive meetings. The board of supervisors of the Bank conducts supervisory work through methods such as supervisory testing and surveys, visits and symposia, inspection and review of information, off-site monitoring and analysis, on-site specific inspection, and research in specific areas.

We have supervisors' liability insurance policies in place for all of our supervisors in 2006.

Meetings of the Board of Supervisors

The board of supervisors has convened six meetings during the year 2006. For details, please refer to the "Report of the Board of Supervisors".

Committees under the Board of Supervisors

Two committees, namely the performance and due diligence supervision committee and the finance and internal control supervision committee, are established under the board of supervisors, with different responsibilities, powers and functions.

Performance and Due Diligence Supervision Committee

The performance and due diligence supervision committee consists of six supervisors: Mr. Xie Duyang, Ms. Liu Jin, Mr. Jin Panshi, Ms. Cheng Meifen, Mr. Sun Zhixin and Mr. Guo Feng. Mr. Xie Duyang, the chairman of the board of supervisors, serves as chairman of the performance and due diligence supervision committee.

The primary responsibilities of the performance and due diligence supervision committee include:

- formulating the rules, work plans and proposals in connection with the supervision of the performance and degree of diligence of the Board, the senior management and their members; and implementing such rules, plans and proposals after the board of supervisors' approval;

- giving supervisory opinions on the performance of duties by the Board and senior management as well as the degree of diligence of the directors, the chairman of the Board and senior executives, and proposing the opinions to the board of supervisors for consideration; and

- formulating performance evaluation measures for the supervisors and implementing such measures, and organising implementation upon approval of the board of supervisors.

In 2006 the performance and due diligence supervision committee formulated the annual work plan for performance and due diligence supervision, and organised the implementation of such plan upon approval of the board of supervisors; further standardised and optimised the work rules for performance and due diligence supervision, enriched and reified relevant methods and contents of supervision; reinforced supervision over the implementation of resolutions of the general meeting of shareholders by the Board and the implementation of resolutions of the Board by the senior management; considered and proposed supervisory opinions on the performance and due diligence of the Board, senior management and their members; and conducted assessment of the performance of the supervisors.

Finance and Internal Control Supervision Committee

The finance and internal control supervision committee consists of six supervisors: Mr. Cui Jianmin, Ms. Liu Jin, Mr. Jin Panshi, Ms. Chen Yueming, Ms. Cheng Meifen and Ms. Ning Liming. External supervisor Mr. Cui Jianmin serves as chairman of the finance and internal control supervision committee.

The primary responsibilities of the finance and internal control supervision committee include:

- formulating the rules, work plans and proposals in connection with the supervision of finance and internal control; and implementing or organising the implementation of such rules, plans and proposals upon the approval of the board of supervisors;

- examining the annual financial reports and business reports of the Bank together with the profit distribution proposals prepared by the Board, and providing suggestions on such reports to the board of supervisors;

- providing supervisory opinions on finance and internal control, and submitting such opinions to the board of supervisors for review; and

- formulating the action plans for the audit of the business decisions, risk management and internal control of the Bank, if necessary, and implementing such plans upon approval of the board of supervisors.

In 2006 the finance and internal control supervision committee formulated specific inspection plans and organised the implementation of such plans upon approval of the board of supervisors; conducted investigation in credit extension and information technology management; reviewed the final accounts, profit distribution plan, and periodic financial statements of the Bank; and proposed supervisory opinions on finance and internal control.

Auditors' Remuneration

At our 2005 annual general meeting held on 15 June 2006, our shareholders approved the Resolution for Appointment of the Auditors for China Construction Bank Corporation and agreed to appoint KPMG Huazhen as our domestic auditors and KPMG as our international auditors for the year 2006; and the directors were authorised to negotiate and determine the fees of such auditors in accordance with market practice.

Auditors' fees for the audit of the financial statements of the Group, including those of the Bank's overseas branches and subsidiaries, for the year ended 31 December 2006 was RMB134 million, of which RMB131 million were the fees paid to KPMG and KPMG Huazhen (including RMB42 million for our interim audit, RMB88 million for our annual audit and RMB1 million for our subsidiaries' annual audit). The total fees paid for non-audit services to KPMG and KPMG Huazhen amounted to RMB4 million in 2006.

Further Information

Shareholding Structure and Shareholders

As of 31 December 2006, we had 224,689,084,000 shares in issue of which approximately 25.92% was held by the public. As at that date, we had a broad base of 68,602 registered shareholders distributed throughout Asia, Europe and North America. The following table shows the distribution of ownership according to our register of members and the participant shareholding report generated from the Central Clearing and Settlement System as at 31 December 2006:

Category	Number of registered shareholders	% of shareholders	Number of shares	% of total issued share capital
Individual investors	68,381	99.67784%	302,888,413	0.1348%
Institutions, corporations, nominees and other non-individual investors (other than our promoters and strategic investors)	214	0.31194%	25,603,606,587	11.3951%
Promoters				
Central SAFE Investments Limited ("Huijin")	1	0.00146%	138,150,047,904	61.4850%
China Jianyin Investment Limited ("Jianyin")	1	0.00146%	20,692,250,000	9.2093%
Shanghai Baosteel Group Corporation	1	0.00146%	3,000,000,000	1.3352%
State Grid Corporation of China	1	0.00146%	3,000,000,000	1.3352%
China Yangtze Power Co. Limited	1	0.00146%	1,600,000,000	0.7121%
Strategic Investors				
BAC	1	0.00146%	19,132,974,346	8.5153%
AFH	1	0.00146%	13,207,316,750	5.8780%
Total	68,602	100%	224,689,084,000	100%

Shareholder Communication

The Bank values communication with shareholders, and exchanges opinions with shareholders through many channels such as general meetings of shareholders, results announcement meetings, road shows, receptions of visitors and telephone enquiries. When publicising annual and interim results, the Bank holds results announcement meetings and analysts' briefings. Relevant results announcements are publicised on designated newspapers and websites. Annual general meetings of shareholders of the Bank present important opportunities for communication with shareholders. Directors, supervisors and senior management of the Bank attend annual general meetings of shareholders and answer questions from shareholders.

In the "2006 Asian Banks Competitiveness Rankings" jointly initiated by the 21st Century Business Herald, the Faculty of Business Administration of The Chinese University of Hong Kong and Guanghua School of Management of Peking University, the Bank was awarded the "Best Investor Relations Award".

Procedures for Voting by Poll

The procedures for voting by poll, which comply with the Listing Rules and the Articles of Association of the Bank, were set out in every circular sent to shareholders of the Bank during the year of 2006.

Shareholder Enquiries

Any enquiries related to your shareholding, including transfer of shares, change of name or address, loss of share certificates and dividend notes, should be sent in writing to our share registrar at:

Computershare Hong Kong
Investor Services Limited
Rooms 1806–1807, 18th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong
Telephone: (852) 2862 8628
Facsimile: (852) 2865 0990/(852) 2529 6087

Investor Relations

Enquiries to our Board may be directed to:
Board of Directors Office
China Construction Bank Corporation
No. 25, Finance Street, Xicheng District,
Beijing, China
Telephone: (8610) 6621 5533
Facsimile: (8610) 6621 8888
Email: ir@ccb.com

Board of Directors Office — Hong Kong Office
China Construction Bank Corporation
5th Floor, Tower One, Lippo Centre,
89 Queensway, Hong Kong
Telephone: (852) 2532 9637
Facsimile: (852) 2523 8185

This annual report is available in both English and Chinese. It is also available (in both English and Chinese) on our website at www.ccb.com and that of The Stock Exchange of Hong Kong Limited at www.hkex.com.hk.

The organisational structure of our Board, the committees under the Board, the board of supervisors, the committees under the board of supervisors, senior management, and the summary of their respective roles and responsibilities are also posted on our website.

If you have any queries about how to obtain copies of this annual report or how to access those documents on our website, please call our hotline at (852) 2532 9637 or (8610) 6621 5533.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The following sets out the information regarding our directors, supervisors and senior management. Our directors, supervisors and members of senior management all meet the qualification requirements for their respective positions.

Directors

Mr. Guo Shuqing, aged 50, is chairman of the board of directors and an executive director, and has served as chairman since March 2005.

Prior to that position, Mr. Guo was deputy governor of the PBOC, director of the State Administration of Foreign Exchange ("SAFE") and chairman of Huijin from December 2003 to March 2005. He was deputy governor of the PBOC and director of the SAFE from March 2001 to December 2003, deputy governor of Guizhou Province from July 1998 to March 2001 and secretary general of the State Commission for Economic Restructuring from March 1996 to July 1998. Mr. Guo served as director of the Macro-control System Department of the State Commission for Economic Restructuring from October 1995 to March 1996, director of the General Planning and Experiment Department of the State Commission for Economic Restructuring from May 1993 to March 1996, and deputy director of the Economic Research Centre of the State Planning Commission from July 1988 to May 1993. Mr. Guo is a research fellow and a member of the 10th China People's Political Consultative Congress National Committee. Mr. Guo graduated from Nankai University in 1982 with a bachelor's degree in philosophy, and graduated from the Chinese Academy of Social Sciences with a doctorate degree in law in 1988. Mr. Guo was also a visiting fellow at the University of Oxford from May 1986 to August 1987.

Mr. Zhang Jianguo, aged 52, is vice chairman of the Board of Directors, an executive director and president, and has served as president since July 2006, and has served as director since October 2006.

Mr. Zhang was Vice Chairman of the board of directors and President of Bank of Communications Co., Ltd. ("BOCOM") from June 2004 to July 2006. From September 2001 to May 2004, Mr. Zhang served as Vice President of BOCOM. From September 1984 to September 2001, Mr. Zhang served several positions in Industrial and Commercial Bank of China, including Deputy General Manager and General Manager of the International Banking Department, Deputy Governor of the Tianjin Branch, Deputy Governor and Governor of the Tianjin Economic and Technology Development Area Branch, and Deputy Manager of the International Banking Department of the Tianjin Branch. From September 1982 to September 1984, Mr. Zhang worked at the Tianjin Branch of the PBOC. Mr. Zhang graduated from Tianjin College of Finance and Economics with a bachelor's degree in Finance in 1982 and a master's degree in Economics in 1995.

Mr. Zhao Lin, aged 52, is an executive director and vice president and has served as a director and vice president since September 2004.

Mr. Zhao was vice president of China Construction Bank from September 2002 to September 2004, chief controller of China Construction Bank in charge of its discipline and compliance matters from February 1995 to September 2002, general manager of the Office of General Affairs of China Construction Bank from December 1992 to February 1995, deputy general manager of the Office of General Affairs of China Construction Bank from February 1992 to December 1992, and deputy general manager of China Construction Bank's Hubei Branch from February 1991 to February 1992. Mr. Zhao is a senior economist and graduated from Zhongnan University of Finance and Economics in 1986 with a degree in business management and economics.

Mr. Luo Zhefu, aged 54, is an executive director and vice president. He has served as a director since June 2006 and vice president of the Bank since September 2004.

Prior to that position, Mr. Luo was vice president of China Construction Bank from November 2000 to September 2004, general manager of Beijing Branch of the Agricultural Bank of China from October 1999 to November 2000, general manager of Hong Kong Branch of the Agricultural Bank of China from September 1998 to October 1999, general manager of Shenzhen Branch of the Agricultural Bank of China from May 1997 to August 1998, general manager of the Treasury and Planning Department of the Agricultural Bank of China from January 1997 to May 1997, deputy general manager of the Treasury and Planning Department of the Agricultural Bank of China from February 1995 to January 1997, deputy general manager of the Education Department of the Agricultural Bank of China from February 1993 to February 1995, and assistant general manager of the Research Office of the Agricultural Bank of China from February 1992 to February 1993. Mr. Luo is a senior economist and graduated from Jilin Finance and Trade College with a bachelor's degree in commerce and economics in 1982. He received his master's degree in commerce and economics from the Chinese Academy of Social Sciences in 1986.

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Mr. Zhu Zhenmin, aged 57,
is a non-executive director and has served as a director since September 2004.

Prior to that position, Mr. Zhu was director-general of the Tax Bureau of the MOF from December 2003 to September 2004, director-general of the Tax Bureau of the MOF and concurrently director of the General Office of Customs Tariff Commission under the State Council from September 2002 to December 2003, and deputy director-general of the Tax Bureau of the MOF from August 1997 to September 2002. Mr. Zhu graduated from the Central Institute of Finance Administration with a degree in finance in 1987. Mr. Zhu is currently an employee of our substantial shareholder, Huijin.

Mr. Jing Xuecheng, aged 61,
is a non-executive director and has served as a director since September 2004.

Prior to that position, Mr. Jing was inspector of the Research Bureau of the PBOC from November 2003 to September 2004, deputy director-general of the Research Bureau of the PBOC from January 2002 to November 2003, head of the macroeconomics division of the Office of Central Leading Group on the Financial and Economic Affairs from June 1999 to January 2002, deputy director-general of the Research Bureau of the PBOC (and deputy director of Finance Institute of the PBOC) from July 1998 to June 1999, and deputy director of the Policy Research Office of the PBOC from July 1996 to July 1998. Mr. Jing is a research fellow and a tutor of doctoral students. He graduated from Jilin Finance and Trade College with a bachelor's degree in finance in 1966, and received his master's degree in finance and economics from Renmin University of China in 1981. Mr. Jing is currently an employee of our substantial shareholder, Huijin.

Ms. Wang Shumin, aged 51,
is a non-executive director and has served as a director since September 2004.

Prior to that position, Ms. Wang was inspector of the Administration and Inspection Bureau of the SAFE from June 2001 to September 2004, deputy director-general of the Administration and Inspection Bureau of the SAFE from March 1998 to June 2001, deputy director-general of the Balance of Payments Bureau of the SAFE from August 1996 to March 1998, and deputy director-general of the Policy and Law Bureau of the SAFE from July 1994 to August 1996. Ms. Wang is a senior economist and has the qualifications to practice law in China. She currently serves as an arbitrator of China International Economic and Trade Arbitration Commission. She graduated from Zhongnan University of Economics and Law with a bachelor's degree in law in 1982. Ms. Wang is currently an employee of our substantial shareholder, Huijin.

Mr. Wang Yonggang, aged 50,
is a non-executive director and has served as a director since September 2004.

Mr. Wang was a dedicated supervisor of director-general level and director of the Office of General Affairs under the board of supervisors of China Construction Bank from August 2003 to September 2004, dedicated supervisor at deputy director-general level and deputy director of the Office of General Affairs under the board of supervisors of the People's Insurance Company of China and China Reinsurance Company from July 2000 to August 2003, and deputy general manager of the compliance department of the Industrial and Commercial Bank of China from June 1997 to July 2000. Mr. Wang is a certified accountant, a senior accountant, and was appointed by the MOF as an expert consultant on financial management of finance and insurance enterprises in August 1997. He graduated from Heilongjiang Finance Technical College with a degree in infrastructure finance in 1982, and received his master's degree in currency and banking from Northeast University of Finance and Economics in 1997. Mr. Wang is currently an employee of our substantial shareholder, Huijin.

Mr. Liu Xianghui, aged 52,
is a non-executive director and has served as a director since November 2004.

Prior to that position, Mr. Liu worked consecutively at the State Economic Commission, the State Planning Commission and the Office of Central Leading Group on the Financial and Economic Affairs. He was inspector of the Economic and Trade Group under the Office of Central Leading Group on the Financial and Economic Affairs from November 2001 to November 2004, and assistant inspector of the same group from July 1998 to November 2001. Mr. Liu also studied at the Central School of Planning and Statistics in Poland from 1989 to 1990, and worked at the United States Environmental Protection Agency in 1993. Mr. Liu is an economist and graduated from Liaoning University with a bachelor's degree in Chinese in 1978. Mr. Liu is currently an employee of our substantial shareholder, Huijin.

Mr. Zhang Xiangdong, aged 49,
is a non-executive director and has served as a director since November 2004.

Prior to that position, Mr. Zhang was inspector of the General Bureau of the SAFE from September 2004 to November 2004, deputy director-general of the same bureau from August 2003 to September 2004, deputy general manager of the PBOC's Haikou Central Subbranch and concurrently deputy director-general of the SAFE's Hainan Branch from August 2001 to August 2003. Mr. Zhang also served as a member of Stock Offering Approval Committee of CSRC from August 1999 to November 2001. Mr. Zhang is a senior economist and is qualified to practice law in China. He currently serves as an arbitrator of China International Economic and Trade Arbitration Commission. He graduated from Renmin University with a bachelor's degree in law in 1986. He completed his graduate studies in international economic law at Renmin University in 1988, and was awarded a master's degree in 1990. Mr. Zhang is currently an employee of our substantial shareholder, Huijin.






Mr. Gregory L. Curl, aged 58, a citizen of the United States, is a non-executive director and has served as a director since August 2005.

Mr. Curl is the global corporate planning and strategy executive of our shareholder BAC and has served in several capacities at BAC, including as vice chairman of corporate development and global corporate planning and as strategy executive since 1996. Prior to that, he served in various capacities in Boatmen's Bancshares, including vice chairman and chief operating officer since 1978. Mr. Curl currently is a director of the Jefferson Scholars Foundation, University of Virginia, the Enstar Group, Inc. and Grupo Financiero Santander Serfin. Mr. Curl received a bachelor's degree in political science from Southwest Missouri State University and a master's degree in government from the University of Virginia.

Mr. Song Fengming, aged 60, is an independent non-executive director and has served as a director since September 2004.

Mr. Song is an experienced academic in banking and finance in China. Mr. Song is a professor and supervisor for doctorate students at Tsinghua University and has been the chair of the department of finance and international trade of Tsinghua School of Economics and Management since 1995. He was an associate professor and director of the Division of Finance and International Trade of the same school from 1988 to 1992, and an assistant professor and dean of the management department of Jiangsu University of Science and Technology from 1982 to 1988. Mr. Song received his bachelor's degree in computational mathematics from Peking University in 1970, his master's degree in management from Shanghai Jiaotong University in 1982, and his Ph.D. degree in systems engineering from Tsinghua University in 1988. He pursued his post-doctorate research at the University of California, Riverside, from 1992 to 1995.

Mr. Yashiro Masamoto, aged 78, a Japanese citizen, is an independent non-executive director and has served as a director since September 2004.

Mr. Yashiro has been the non-executive chairman of Shinsei Bank since June 2005, and was chairman and chief executive officer of Shinsei Bank and its predecessor, Long Term Credit Bank of Japan, from March 2000 to June 2005. He was chairman of Citibank's Japan Branch from October 1997 to March 1999. From November 1989 to October 1997, he held a series of senior positions at Citibank and Citicorp, including executive vice president of the parent corporation. Mr. Yashiro received his bachelor's degree in law from Kyoto University of Japan in 1954 and his master's degree in international relations from Tokyo University in 1958.

Mr. Tse Hau Yin, Aloysius, aged 59, is an independent non-executive director and has served as a director since November 2004.

Mr. Tse joined KPMG in 1976, became a partner in 1984, and retired from KPMG in March 2003. Mr. Tse served as non-executive chairman of KPMG China and was a member of the China Affairs Committee of KPMG from 1997 to 2000. Mr. Tse is a former president of the Hong Kong Institute of Certified Public Accountant ("HKICPA"). He is a fellow of the HKICPA and the Institute of Chartered Accountants in England and Wales. Mr. Tse currently is an independent non-executive director of China Telecom Corporation Limited, Wing Hang Bank Limited, CNOOC Limited and Linmark Group Limited. He is also Chairman of International Advisory Council of the Wuhan Municipal Government. Mr. Tse graduated from the University of Hong Kong.

Ms. Elaine La Roche, aged 57, a citizen of the United States, is an independent non-executive director and has served as a director since June 2005.

Ms. La Roche was the chief executive officer of Salisbury Pharmacy Group, which is in the business of acquiring, restructuring and operating independent community pharmacies in the Northeastern United States, from June 2000 until April 2005. Prior to then, she worked at Morgan Stanley from May 1978 to June 2000. She was a managing director of Morgan Stanley from 1987 and served in various capacities, including as chief of staff to the chair and president of Morgan Stanley. She was seconded from Morgan Stanley to serve as the chief executive officer of China International Capital Corporation Limited from May 1998 to June 2000. Ms. La Roche was the financial executive of Cantor Fitzgerald, a diversified financial services company. Ms. La Roche currently serves as the chair of the board of Linktone, a NASDAQ listed company. Ms. La Roche graduated from Georgetown University School of Foreign Service with a bachelor's degree in international affairs and from the American University with a master's degree in business administration in finance.

Lord Peter Levene, aged 65, a citizen of the United Kingdom, is an independent non-executive director and has served as a director since June 2006.

Lord Peter Levene is currently the Chairman of Lloyd's of London. Lord Peter Levene is also concurrently the Chairman of General Dynamics UK Limited and International Financial Services London, and Director of TOTAL SA, a listed entity, and of Haymarket Group Ltd. Before that, he held various directorships in other listed companies including director of J Sainsbury plc from 2001 to 2004, and member of supervisory board of Deutsche Boerse from 2004 to 2005.






Supervisors

Mr. Xie Duyang, aged 58,
has served as chairman of the board of supervisors since September 2004.

Mr. Xie was chairman of the board of supervisors of China Construction Bank from July 2003 to September 2004, chairman of the board of supervisors of People's Insurance Company of China and China Reinsurance Company from July 2000 to July 2003, vice president of Industrial and Commercial Bank of China from October 1992 to July 2000, an officer of director-general level at the Ministry of Organisation from June 1989 to October 1992, an officer of director-general level at the National Economic General Affairs Bureau of the State Planning Commission from April 1989 to June 1989, and an officer of deputy director-general level at the same bureau from July 1986 to April 1989. Mr. Xie is a research fellow and graduated from Wuhan University with a doctorate degree in political economics in 2002.

Ms. Liu Jin, aged 42,
has served as a supervisor since September 2004.

Ms. Liu was dedicated supervisor of deputy director-general level at the board of supervisors of China Construction Bank from July 2003 to September 2004, dedicated supervisor of deputy director-general level at the board of supervisors of the People's Insurance Company of China and China Reinsurance Company from November 2001 to July 2003, and chief manager of the board of supervisors of the People's Insurance Company of China and China Reinsurance Company from July 2000 to November 2001. Ms. Liu is a senior economist and graduated from Hunan Finance and Economics College with a bachelor's degree in finance in 1984.

Mr. Jin Panshi, aged 42,
has served as a supervisor since September 2004.

Mr. Jin was deputy general manager of the audit department of China Construction Bank from June 2001 to September 2004, and senior manager of off-site audit division of audit department of China Construction Bank from September 1999 to June 2001. Mr. Jin is a senior engineer and a Certified Information Systems Auditor and graduated from Jilin University of Technology with a bachelor's degree in computer application in 1986, and a master's degree in computer application from the same university in 1989.

Ms. Chen Yueming, aged 50,
has served as a supervisor since September 2004.

Ms. Chen was vice president of State Grid since December 2002. From April 2003 to November 2006, she was also chair of the board of directors of China Power Finance Company Limited; and beginning April 2005, she was also chief accountant of State Grid. Ms. Chen was chief accountant and director of Finance and Property Ownership Management Department of the State Power Company from November 2001 to December 2002, deputy chief accountant and director of Finance and Property Ownership Management Department of the State Power Company from July 2000 to November 2001, and director of Finance and Property Ownership Management Department of the State Power Company from March 1999 to July 2000. Ms. Chen is a senior accountant and graduated from Zhongnan University of Economics, Politics and Law with a bachelor's degree in industrial finance and accounting in 1982. Ms. Chen graduated from Tsinghua University with a MBA degree from in July 2006.




Ms. Cheng Meifen, aged 51, has served as a supervisor since December 2004.

Ms. Cheng has been general manager of the legal affairs department of China Construction Bank from March 2004, and deputy general manager of the same department from August 1999 to March 2004. Ms. Cheng is an economist and graduated with a master's degree in law from the law department of Peking University in 1998.

Mr. Sun Zhixin, aged 56, has served as a supervisor since October 2006.

Mr. Sun has been General Manager of the Human Resource Department of the Bank since September 2005, Administrative Deputy General Manager of the Senior Training Centre of China Construction Bank from August 2003 to September 2005, Deputy Director of the Personal Banking Management Committee of China Construction Bank from March 2003 to August 2003, General Manager of the Human Resource Department of China Construction Bank from July 1999 to March 2003, General Manager of Guangxi Branch of China Construction Bank from December 1997 to July 1999, Deputy General Manager of Guangdong Branch of China Construction Bank from January 1996 to December 1997, General Manager of the Supervisory Department of China Construction Bank from September 1993 to January 1996, Deputy General Manager of the Education Department of China Construction Bank from May 1986 to September 1993. Mr. Sun is a senior economist and graduated from Shanxi University of Finance and Economics with a bachelor's degree in finance in 1977.

Ms. Ning Liming, aged 57, has served as a supervisor since October 2006.

Ms. Ning has been General Manager of Shanghai Branch of China Construction Bank Corporation since November 1999. She was Deputy General Manager of Shanghai Branch of China Construction Bank Corporation from December 1992 to November 1999, and Chief Manager of China Construction Bank Shanghai Branch, No.5 Sub-branch from May 1986 to December 1992. Ms. Ning is a senior economist and graduated from Shanghai University of Finance and Economics with a master's degree in Monetary Finance in 1996. In 2005, Ms. Ning got the EMBA degree in Arizona State University.

Mr. Cui Jianmin, aged 74, has served as an external supervisor since March 2005.

Mr. Cui was an advisor to the Chinese Certified Tax Agents Association from October 2004, an independent supervisor at China Petroleum & Chemical Corporation from April 2000, president of the Chinese Institute of Certified Public Accountants from December 1995 to November 2004, executive deputy auditor general of the National Audit Office from March 1987 to April 1995, deputy auditor general of the same office from January 1985 to March 1987, director-general of the Industry and Transportation Audit Office of NAO from June 1983 to January 1985, deputy director-general of the Finance Department of the First Ministry of Machine-Building Industry from February 1981 to June 1983, and vice director of the General Affairs Office of the same ministry from February 1977 to February 1981. Mr. Cui is a senior auditor and graduated with a bachelor's degree from the economic planning department of the Renmin University of China in 1962.

Mr. Guo Feng, aged 44, has served as an external supervisor since March 2005.

Mr. Guo has been the director of the law school of the Central University of Finance and Economics since January 2007. Mr. Guo has been a professor at the law school of the Central University of Finance and Economics and Director of the Research Institute of Financial and Economic Law of the same university since December 2004. He was an associate professor at the law school of the Renmin University of China from June 1993 to December 2004, and deputy director of the Institute of Financial Law of the same university from February 1993 to December 2004. Mr. Guo was a visiting scholar at the law school of the City Polytechnic of Hong Kong from January 1993 to June 1993. Mr. Guo is a professor. He received his master's degree in civil and commercial law from the Renmin University of China in June 1986 and his Ph.D. degree in civil and commercial law from the same university in 1995.





Senior Management

Mr. Zhang Jianguo, aged 52, vice chairman of the Board, executive director and president. See "Directors".

Mr. Zhao Lin, aged 52, executive director and vice president. See "Directors".

Mr. Luo Zhefu, aged 54, executive director and vice president. See "Directors".

Ms. Xin Shusen, aged 57,
has served as a vice president since July 2005.

Ms. Xin was our chief compliance officer from September 2004 to July 2005, chief controller of China Construction Bank from September 2003 to September 2004, deputy chief controller of China Construction Bank from February 2003 to September 2003, general manager of personal banking department of China Construction Bank from June 2000 to February 2003, general manager of retail banking department of China Construction Bank from June 1998 to June 2000, general manager of funding and savings department of China Construction Bank from April 1994 to June 1998, and deputy general manager of human resources department of China Construction Bank from August 1990 to April 1994. She was also general manager of the corporate culture department from September 1993 to April 1994. Ms. Xin is a senior economist and recipient of a special grant by the PRC government. Ms. Xin graduated from Changchun Metallurgy Construction Institute with a degree in industrial and civil construction in 1983. She received her master's degree in national economics from Northeast University of Finance and Economics in 1998.

Mr. Chen Zuofu, aged 52,
has served as a vice president since July 2005.

Mr. Chen was assistant president of the Bank from September 2004 to July 2005, assistant president of China Construction Bank from July 1997 to September 2004. Mr. Chen was a visiting scholar to Stanford University from June 1999 to May 2000. Mr. Chen is a lecturer and graduated from Southwest University of Politics and Law with a bachelor's degree in law in 1983. He received his master's degree in management and engineering from Central South University of Technology in 1996.

Mr. Fan Yifei, aged 42,
has served as a vice president since July 2005.

Mr. Fan was our assistant president from September 2004 to July 2005, assistant president of China Construction Bank from February 2000 to September 2004, and served concurrently as assistant president of China Yangtze Power Co., Ltd. from March 2003 to March 2004. He was general manager of the planning and finance department of China Construction Bank from January 1998 to February 2000, general manager of the finance and accounting department of China Construction Bank from July 1996 to January 1998, and deputy general manager of treasury and planning department of China Construction Bank from September 1994 to July 1996. Mr. Fan also serves as chairman of the board of directors of China Construction Bank (Asia) Corporation Limited and a director of China Petroleum & Chemical Corporation. Mr. Fan is a senior accountant and received his M.A. in finance from the Institute of Finance under the MOF in 1990, his Ph.D. in finance from Renmin University of China in 1993, and his M.I.A. degree in international economics from Columbia University in 2002.

Mr. Pang Xiusheng, aged 48,
has served as our chief financial officer since April 2006.

Prior to that, Mr. Pang was executive vice chairman of our asset and liability management committee from March to April 2006; general manager of our restructuring office from April 2005 to March 2006; general manager of Zhejiang Branch of China Construction Bank from June 2003 to April 2005; head of Zhejiang Branch of China Construction Bank from April 2003 to June 2003; general manager of planning and finance Department of China Construction Bank from May 2000 to April 2003; deputy general manager of planning and finance department of China Construction Bank from October 1997 to May 2000; and deputy general manager of treasury and planning Department of China Construction Bank from September 1995 to October 1997. Mr. Pang is a senior economist and recipient of a special grant by the PRC Government. He graduated from Heilongjiang Finance College with a degree in infrastructure finance in 1980 and received his master's degree in technological economics from Harbin Industrial University in 1995.

Mr. Zhu Xiaohuang, aged 50,
has served as our chief risk officer since April 2006.

Prior to that, he was executive vice chairman of our risk management and internal control committee from March to April 2006; general manager of our banking department from October 2004 to March 2006; general manager of Guangdong Branch of China Construction Bank from May 2001 to October 2004; general manager of head office's business operations department of China Construction Bank from March 1999 to May 2001; deputy general manager of Liaoning Branch of China Construction Bank from March 1997 to March 1999; deputy general manager of head office's credit management department of China Construction Bank from April 1996 to March 1997; deputy head of head office's credit number 1 department of China Construction Bank from April 1995 to April 1996; and deputy head of head office's administrative office of China Construction Bank from September 1993 to April 1995. Mr. Zhu is a senior economist and recipient of a special grant from the PRC Government. He graduated from Hubei Finance and Economics College with a bachelor degree in infrastructure finance and credit in 1982. He also received a doctoral degree in world economics from Zhongshan University in December 2006.





**Mr. Yu Yongshun, aged 56,
has served as our chief auditor since July 2005.**

Mr. Yu was general manager of our audit department from September 2004 to August 2006, general manager of the audit department of China Construction Bank from April 1999 to September 2004, general manager of No. 2 banking department of China Construction Bank from April 1998 to April 1999, general manager of Xinjiang Branch of China Construction Bank from March 1996 to April 1998, general manager of real estate credit department of China Construction Bank from September 1993 to March 1996, and deputy general manager of treasury and planning department of China Construction Bank from October 1990 to September 1993. Mr. Yu is a senior economist and recipient of a special grant from the PRC government. He graduated from Liaoning Finance and Economics College with a degree in infrastructure finance in 1977, and graduated from Chinese Academy of Social Sciences with a degree in Money and Banking.

**Mr. Zhang Long, aged 42,
has served as our secretary to the board of directors[1] since December 2006 and controller of our investment and wealth management banking since May 2006.**

Prior to that, Mr. Zhang was executive vice president of our investment and wealth investment banking committee from March to May 2006; general manager of our credit approval department and head of our management mechanism reform drive office from December 2004 to March 2006; general manager of credit approval department of China Construction Bank from March 2003 to December 2004; head of credit approval office of risk control and management committee of China Construction Bank from February 2001 and March 2003; deputy head and head of office of credit management committee from August 1998 to February 2001; regional economist and investment officer of Asia bureau of International Finance Company from December 1995 to August 1998; regional economist of Central Asia, Middle East and North Africa bureau of International Finance Company from August 1994 to December 1995; and senior research analyst of Brookings Research Institute from October 1992 to August 1994. Mr. Zhang graduated from Tsinghua University with a bachelor degree in engineering physics in 1985. He also received a master degree in business administration from the University of Chicago, USA in 1989 and a doctoral degree in economics from the University of California, USA in 1992.

**Mr. Gu Jingpu, aged 50,
has served as controller of our wholesale banking since May 2006.**

Prior to that, Mr. Yi was executive vice president of our corporate and institutional banking committee from March to May 2006; deputy head of risk and internal control management committee, head of office of risk and internal control management committee and general manager of risk management department of China Construction Bank from March 2003 to March 2006; deputy head of risk and internal control management committee and head of office of risk and internal control management committee of China Construction Bank from February 2001 to March 2003; deputy head of risk and internal control management committee of China Construction Bank from August 2000 to February 2001; general manager of Guangdong Branch of China Construction Bank from September 1998 to August 2000; head of internal audit department of China Construction Bank from January 1995 to September 1998; and deputy head of internal audit department of China Construction Bank from May 1994 to January 1995. Mr. Yi is a senior economist and a PRC certified public accountant. He received a doctoral degree in management from Zhongshan University.

**Mr. Du Yajun, aged 50,
has served as controller of our retailing banking since May 2006.**

Prior to that, Mr. Yi was executive vice president of our personal banking committee from March to May 2006; general manager of Hebei Branch of China Construction Bank from December 1999 to March 2006; general manager of Shanxi Branch of China Construction Bank from December 1996 to March 1999 and deputy general manager of Hebei Branch of China Construction Bank from May 1992 to December 1996. Mr. Du is a senior economist. He graduated from Liaoning Finance and Economics College with a degree in infrastructure finance and credit. He also received a master degree in world economics from Hebei University.




1 The appointment is subject to approval of the CBRC.

Company Secretary

Mr. Ha Yiu Fai, aged 49, has served as our company secretary since August 2005.

Mr. Ha has over 20 years' experience practising corporate and commercial law in England, Australia and Hong Kong, both as in-house counsel and in private practice. Mr. Ha has been head of legal and compliance of CCB International (Holdings) Limited and its subsidiaries since December 2004. Prior to that, Mr. Ha was an in-house counsel at JP Morgan and its predecessor from January 1998 to December 2004. Mr. Ha is a fellow member of the Institute of Chartered Secretaries and Administrators, UK and the Hong Kong Institute of Chartered Secretaries. Mr. Ha graduated from the University of London with a bachelor's degree in law in 1982 (Queen Mary College) and a master's degree in law in 1983 (University College). Mr. Ha also received a master's degree in PRC law from City University of Hong Kong in 1997.

Qualified Accountant

Mr. Yuen Yiu Leung, aged 42, has served as our qualified accountant since August 2005.

Mr. Yuen has been head of finance of our Hong Kong Branch since September 2004. Mr. Yuen has also been head of finance of CCB International (Holdings) Limited and its subsidiaries since January 2006. Prior to that, Mr. Yuen held the same position in the Hong Kong branch of China Construction Bank from October 1995 to September 2004 and he served in several capacities at the internal control, finance and accounting functions of Standard Chartered Bank. Mr. Yuen is a fellow of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants, UK and the Chartered Institute of Management Accountants, UK and an associate of the Institute of Chartered Accountants in England & Wales. Mr. Yuen graduated from Hong Kong Polytechnic University with a professional diploma in management accountancy in 1988 and received a master's degree in business administration from University of Wales in cooperation with Manchester Business School in 1998.

REPORT OF THE BOARD OF DIRECTORS

The Board is pleased to present its report together with the audited financial statements of the Group prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2006 as set forth in the "Financial Statements".

Principal Activities

The Group is engaged in the provision of a range of banking products and services and related financial services.

Profits and Dividends

The profit of the Group for the year ended 31 December 2006 and the state of the Group's financial affairs as at that date are set out in the "Financial Statements" on pages 102 to 217.

The Board recommends the payment of a cash dividend in the amount of RMB0.092 per share, totalling approximately RMB20,671 million in respect of the financial year ended 31 December 2006, subject to the approval of shareholders at the forthcoming annual general meeting. If approved, the dividend will be paid to shareholders whose names appear on the register of members of the Bank as at Monday, 21 May 2007.

Reserves

Please refer to the consolidated statement of changes in equity for details of the movements in the reserves of the Group for the year ended 31 December 2006. Other details of the reserves are set out in notes 30 and 31 to the "Financial Statements".

Summary of Financial Information

Please refer to the "Five-Year Financial Summary" for the summary of the operating results, assets and liabilities of the Group for the five years ended 31 December 2006.

Donations

Donations made by the Group during the year ended 31 December 2006 for charitable and other purposes amounted to RMB21.68 million.

Property and Equipment

Please refer to note 21 to the "Financial Statements" for details of movements in the property and equipment of the Group for the year ended 31 December 2006.

Ultimate Parent and its Subsidiaries

Please refer to notes 41 and 19 to the "Financial Statements" for details of the Bank's ultimate parent and its subsidiaries respectively as at 31 December 2006.

Share Capital and Public Float

Please refer to note 30 (a) to the "Financial Statements" for details of the movements in share capital of the Bank during the financial year.

Based on publicly available information at the latest practicable date prior to the publication of this report, the Bank has maintained the prescribed public float under the Listing Rules.

Purchase, Sale and Redemption of Shares

There was no purchase, sale or redemption by the Bank or any of its subsidiaries of the listed securities of the Bank during the year ended 31 December 2006.

Retirement Benefits

Please refer to note 28 to the "Financial Statements" for details of the retirement benefits provided to employees of the Group.

Pre-emptive Rights

The Articles of Association of the Bank and the relevant PRC law do not have such provisions under which the Bank's shareholders have pre-emptive rights. The Articles of Association provides that if the Bank wishes to increase its capital, it may issue new shares to non-specified investors, may issue shares to existing shareholders or issue shares by way of distribution to existing shareholders, may transfer capital from its capital accumulation fund to increase its share capital, or through other means permitted by law or regulation.

Major Customers

For the year ended 31 December 2006, the total of interest income and other operating income from the five largest customers of the Group represented an amount not exceeding 30% of the total of interest income and other operating income of the Group.

Directors and Supervisors

The biographical details of the current directors, supervisors and senior management of the Bank are set out in the "Profiles of Directors, Supervisors and Senior Management". The details of changes in directors and supervisors during 2006 and details of re-election of the Board and board of supervisors at the forthcoming 2006 annual general meeting are set out in the "Corporate Governance Report".

The Bank has received from each of its independent non-executive directors the confirmation of his/her independence. The Bank considers the existing independent non-executive directors are in compliance with the independence guidelines set out in Rule 3.13 of the Listing Rules, and are accordingly independent.

Material Interests and Short Positions

As at 31 December 2006, the interests and short positions of substantial shareholders and other persons of the Bank in the shares and underlying shares of the Bank as recorded in the register required to be kept under section 336 of the Securities and Futures Ordinance ("SFO") were as follows:

	Number of H shares held			
Name	**Held directly**	**Held indirectly**	**Total holding**	**% of total issued shares**
Huijin[1]	138,150,047,904	20,692,250,000	158,842,297,904	70.69%
Jianyin[1]	20,692,250,000	—	20,692,250,000	9.21%
BAC[2]	19,132,974,346	—	19,132,974,346	8.52%
Temasek[3]	—	13,576,203,750	13,576,203,750	6.04%
AFH[4]	13,207,316,750	—	13,207,316,750	5.88%

1. As Huijin directly controls one-third or more of the voting rights in the shareholders' meetings of Jianyin, in accordance with the SFO, the interests directly held by Jianyin are deemed to be indirect interests of Huijin.

2. BAC holds an option to acquire the Bank's H shares representing a total of 19.90% of our issued share capital (excluding any shares already held by BAC as at that date), which is in the form of a physically settled unlisted derivative.

3. Temasek's interests in the Bank are held through its indirect interests in the following entities, the respective direct shareholdings of which are set out below.

Entity	**Number of H shares held**
AFH	13,207,316,750
Aranda Investments Pte Ltd	360,700,000
CESMA International Private Limited	62,000
Fullerton (Private) Limited	862,000
PSA Corporation Pte Ltd	291,000
PSA International Pte Ltd	583,000
Singapore Technologies Marine Ltd	606,000
The Rohatyn Group Asia Opportunity Fund, Ltd	3,887,000
Vision Tech Investment Pte Ltd	1,896,000

4. As AFH is a wholly-owned subsidiary of Temasek, in accordance with the SFO, the interests directly held by AFH are deemed to be indirect interests of Temasek.

Save as disclosed above, as at 31 December 2006, in the register required to be kept under Section 336 of the SFO, no other persons or companies were recorded as holding any interests or short positions in the shares or underlying shares of the Bank that would fall to be disclosed by the Bank under Division 2 and 3 of Part XV of the SFO.

Directors' Financial, Business and Family Relationships

There are no relationships among the directors of the Bank, including financial, business, family or other material relationships.

Directors' and Supervisors' Interests in Contracts and Service Contracts

For the year ended 31 December 2006, no director or supervisor of the Bank had any material interest, whether directly or indirectly, in any contract of significance in relation to the Group's business entered into by the Bank, any of its holding companies or subsidiaries or subsidiaries of the Bank's holding companies, apart from service contracts.

None of the directors and supervisors of the Bank has entered into a service contract with the Bank that is not terminable by the Bank within one year without payment of compensation (other than statutory compensation).

Directors' and Supervisors' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2006, none of the directors and supervisors of the Bank had any interests or short positions in the shares, underlying shares and debentures of the Bank or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Bank and The Stock Exchange of Hong Kong Limited pursuant to Appendix 10 of the Listing Rules: Model Code for Securities Transactions by Directors of Listed Issuers.

As at 31 December 2006, the Bank has not granted its directors or supervisors, or their respective spouses or children below the age of 18 any rights to subscribe for the shares or debentures of the Bank or any of its associated corporations and none of them has ever exercised any such right to subscribe for shares or debentures.

Directors' Interests in Competing Businesses

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

Material Legal Proceedings

As at 31 December 2006, as far as the Bank is aware, the Bank was not involved in any material litigation or arbitration and no material litigation claims were pending or threatened or made against the Bank.

Remuneration Policy for the Directors, Supervisors and Senior Management

We have established interim measures for remuneration and annual bonus for our directors, supervisors and senior management, and continually seek to improve the performance evaluation system and incentive and disciplinary mechanism for our directors, supervisors and senior management.

The Bank's remuneration policy for directors, supervisors and senior management takes into consideration the interests of individuals and the Bank as well as shareholders' value. Individuals are remunerated based on their contribution to the Bank and their positions, with a system of performance bonuses. The principles of incentives and disciplines are also applied to our remuneration policy. The remuneration package comprises salary, annual bonus and long-term incentive and subsidies. The Bank participates in the relevant PRC mandatory retirement schemes for its directors, supervisors and senior management and other employees. The Bank's long-term incentive scheme will be implemented subject to obtaining the necessary approvals.

Corporate Governance

We are committed to maintaining the highest standard of corporate governance practices. Information on the corporate governance practices adopted by the Bank and our compliance with the Code is set out in the "Corporate Governance Report".

Compliance with Hong Kong Monetary Authority Supervisory Policy Manual on Financial Disclosure by Locally Incorporated Authorised Institutions

In preparing the financial statements for 2006, the Bank has fully complied with the guidelines set out in the Supervisory Policy Manual on Financial Disclosure by Locally Incorporated Authorised Institutions issued by the Hong Kong Monetary Authority.

Auditors

Our domestic auditors were KPMG Huazhen and our international auditors were KPMG for the year 2006. The Board will table a resolution at the forthcoming 2006 annual general meeting, proposing to reappoint KPMG Huazhen as our domestic auditors and KPMG as our international auditors for the year 2007.

By order of the Board of Directors

Chairman

13 April 2007

REPORT OF THE BOARD OF SUPERVISORS

中国建设银行
China Construction Bank

In 2006, pursuant to the relevant provisions of the PRC Company Law and the Articles of Association of the Bank, the board of supervisors performed its duties earnestly and conducted supervision actively in order to safeguard the interests of the shareholders and the Bank.

In 2006 the board of supervisors held six meetings and reviewed twenty-one proposals, six of which were submitted to the general meeting of shareholders for consideration. According to the amended Articles of Association, two new employee representative supervisors were elected. New members were elected to the performance and due diligence supervision committee and the financial and internal control supervision committee. Relevant rules and regulations of the board of supervisors were amended and refined. The board of supervisors considered its annual report and the final accounts and profit distribution plan of the Bank, and studied and deployed the work of the board of supervisors in different phases. The performance and due diligence supervision committee held four meetings and reviewed ten proposals; the financial and internal control supervision committee held six meetings and reviewed nine proposals. The supervisors attended the annual general meeting and extraordinary general meeting of the shareholders in 2005. Additionally, they attended the meetings held by the Board, the relevant Board committees and the senior management as non-voting attendees.

In light of actual conditions of the reform and development of the Bank, the board of supervisors kept focused on the key aspects of supervisory work and carried out targeted inspections. The board of supervisors actively explored ways to bring the role of supervisory work at full play, made timely prompts and suggestions in many forms to respective parties on problems found in the course of supervisory inspections and items calling for attention, and effectively improved related aspects and enhanced the results of supervision.

In respect of performance and due diligence, the board of supervisors made special efforts to explore new methods of supervision; amended and refined the supervisory rules; improved the form and content of the performance and due diligence assessment; enlarged the scope of visits and interviews; listened to evaluations, comments and suggestions from various sides regarding the performance and due diligence of the Board, senior management and their members; carefully reviewed proposals and background materials of the Bank in relevant meetings, and strengthened the supervision of the compliance with laws, regulations and the Articles of Association of the Bank; and supervised the implementation of shareholder resolutions by the Board and the implementation of Board resolutions by the senior management. In respect of financial and internal control supervision, the board of supervisors actively conducted off-site analysis and, based on such analysis, carried out special investigations or inspections regarding the extension of credit, the risk classification of credit assets, funds denominated in foreign currencies and information technology. The board of supervisors reviewed the periodic financial statements earnestly, and enhanced communication with the external auditors and the respective departments. The board of supervisors paid great attention to connected transactions and material acquisitions and disposals of assets; and maintained routine communication with the Board committees and relevant departments on these items.

In the opinion of the board of supervisors, in 2006 the Bank continued to improve its corporate governance, its businesses developed rapidly, operating productivity grew steadily, and the asset quality was further improved. The Board performed its duties pursuant to relevant laws, implemented resolutions adopted by the general meeting of shareholders, and played an active role in major business decisions. The senior management organised business activities pursuant to relevant laws, implemented Board resolutions earnestly, endeavoured to put the development strategies into effect, improved operational and management reform, and enhanced the market competitiveness and profitability of the Bank. The current directors and senior executives were diligent in carrying out their duties, and enquiries revealed that they did not contravene any laws, regulations or the Bank's Articles of Association, nor did they commit any acts detrimental to the interests of the shareholders and the Bank during the reporting period.

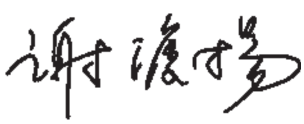
KPMG conducted an audit of the financial statements of the Bank for the year 2006 in accordance with the Hong Kong Standards on Auditing, and issued a standard and unqualified audit report, stating that the financial statements gave a true and fair view of the financial position, operating results, and cash flow.

The board of supervisors is not aware of any related party transactions conducted by the Bank against fair and reasonable principle, or any acts in acquisition or sale of assets detrimental to the interests of the shareholders or leading to a drain on the Bank's assets in 2006.

Looking forward to the coming year, the Board should further enhance the quality of its decision-making, lead the Bank to deal with the relationship between the growth rate, asset size and quality and productivity properly, so as to ensure the prudent operations and healthy development of the Bank. The senior management should further improve operational and management system reform, strengthen essential management and internal controls, and enhance the core competitiveness of the bank on the whole.

The board of supervisors will endeavour to improve the methods of supervision, and strengthen its supervision on the performance and due diligence of the Board, senior management and their members as well as on the financial and internal control of the Bank, so as to play a better role of supervision and checks and balances.

By order of the board of supervisors



Chairman of the board of supervisors

13 April 2007

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the shareholders of China Construction Bank Corporation
(a joint stock company incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of China Construction Bank Corporation (the "Bank") and its subsidiaries (collectively the "Group") set out on pages 102 to 217, which comprise the consolidated and Bank balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated and Bank statements of changes in equity, the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

OPINION

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

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

13 April 2007

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2006 (Expressed in millions of Renminbi unless otherwise stated)

	Note	**2006**	2005
Interest income		**215,189**	173,601
Interest expense		**(74,821)**	(57,050)
Net interest income	2	**140,368**	116,551
Fee and commission income		**14,627**	9,261
Fee and commission expense		**(1,056)**	(806)
Net fee and commission income	3	**13,571**	8,455
Dividend income	4	**424**	546
Net gain arising from dealing securities	5	**619**	455
Net gain arising from investment securities	6	**1,012**	1,927
Other operating (loss)/income	7	**(4,401)**	780
Operating income		**151,593**	128,714
Operating expenses	8	**(66,662)**	(58,092)
		84,931	70,622
Provisions for impairment losses on			
— loans and advances to customers	9(a)	**(18,997)**	(13,706)
— others	9(b)	**(217)**	(1,552)
Impairment losses		**(19,214)**	(15,258)
Profit before tax		**65,717**	55,364
Income tax	13(a)	**(19,398)**	(8,268)
Net profit		**46,319**	47,096
Attributable to:			
Shareholders of the Bank		**46,322**	47,103
Minority interests		**(3)**	(7)
Net profit		**46,319**	47,096
Cash dividends payable to shareholders of the Bank			
Interim cash dividend declared during the year		**—**	168
Special cash dividend declared during the year		**—**	3,100
Final cash dividend proposed after the balance sheet date		**20,671**	3,370
	31(b)	**20,671**	6,638
Basic and diluted earnings per share (in RMB)	14	**0.21**	0.24

The notes on pages 109 to 217 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2006 (Expressed in millions of Renminbi)

	Note	2006	2005
Assets			
Cash and balances with central banks	15	**539,673**	480,136
Amounts due from banks and non-bank financial institutions	16	**82,185**	190,108
Loans and advances to customers	17	**2,795,976**	2,395,313
Investments	18	**1,909,392**	1,413,871
Interest in associate	20	**103**	—
Property and equipment	21	**53,037**	49,961
Goodwill	22	**1,743**	—
Deferred tax assets	23	**2,701**	420
Other assets	24	**63,701**	55,933
Total assets		**5,448,511**	4,585,742
Liabilities			
Amounts due to central banks		**1,256**	21
Amounts due to banks and non-bank financial institutions	25	**243,968**	164,524
Deposits from customers	26	**4,721,256**	4,006,046
Certificates of deposit issued		**6,957**	5,429
Current tax liabilities		**17,897**	5,648
Deferred tax liabilities	23	**25**	—
Other liabilities and provisions	27	**87,031**	76,490
Subordinated bonds issued	29	**39,917**	39,907
Total liabilities		**5,118,307**	4,298,065
Equity			
Share capital	30(a)	**224,689**	224,689
Reserves	30	**105,420**	62,890
Total equity attributable to shareholders of the Bank		**330,109**	287,579
Minority interests		**95**	98
Total equity		**330,204**	287,677
Total equity and liabilities		**5,448,511**	4,585,742

Approved and authorised for issue by the board of directors on 13 April 2007.

Zhang Jianguo	**Tse Hau Yin, Aloysius**	**Yashiro Masamoto**
Vice chairman and executive director	*Independent non-executive director*	*Independent non-executive director*

The notes on pages 109 to 217 form part of these financial statements.

BALANCE SHEET OF THE BANK

As at 31 December 2006 (Expressed in millions of Renminbi)

	Note	2006	2005
Assets			
Cash and balances with central banks	15	**539,556**	480,136
Amounts due from banks and non-bank financial institutions	16	**76,026**	190,018
Loans and advances to customers	17	**2,767,232**	2,393,226
Investments	18	**1,903,987**	1,412,114
Investments in subsidiaries	19	**626**	640
Property and equipment	21	**52,884**	49,884
Deferred tax assets	23	**2,682**	420
Amounts due from subsidiaries		**12,047**	1,943
Other assets	24	**62,863**	55,773
Total assets		**5,417,903**	4,584,154
Liabilities			
Amounts due to central banks		**1,256**	21
Amounts due to banks and non-bank financial institutions	25	**243,793**	164,308
Amounts due to subsidiaries		**1,208**	891
Deposits from customers	26	**4,692,843**	4,004,228
Certificates of deposit issued		**5,957**	5,429
Current tax liabilities		**17,816**	5,616
Deferred tax liabilities	23	**25**	—
Other liabilities and provisions	27	**85,377**	76,370
Subordinated bonds issued	29	**39,917**	39,907
Total liabilities		**5,088,192**	4,296,770
Equity			
Share capital	30(a)	**224,689**	224,689
Reserves	30	**105,022**	62,695
Total equity		**329,711**	287,384
Total equity and liabilities		**5,417,903**	4,584,154

Approved and authorised for issue by the board of directors on 13 April 2007.

Zhang Jianguo	**Tse Hau Yin, Aloysius**	**Yashiro Masamoto**
Vice chairman and executive director	*Independent non-executive director*	*Independent non-executive director*

The notes on pages 109 to 217 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2006 (Expressed in millions of Renminbi)

	Note	Share capital	Capital reserve	Statutory surplus reserve fund	Statutory public welfare fund	Investment revaluation reserve	General reserve	Exchange reserve	Retained earnings	Minority interests	Total equity
As at 1 January 2006		**224,689**	**42,091**	**4,334**	**2,167**	**(823)**	**10,332**	**6**	**4,783**	**98**	**287,677**
Net profit for the year		—	—	—	—	—	—	—	**46,322**	**(3)**	**46,319**
Net change in fair value of available-for-sale investments	30(d)	—	—	—	—	**(632)**	—	—	—	—	**(632)**
Net loss realised on disposal of available-for-sale investments	30(d)	—	—	—	—	**229**	—	—	—	—	**229**
Transfers in/(out)	30(c)	—	—	**2,167**	**(2,167)**	—	—	—	—	—	—
Appropriations to statutory surplus reserve fund and general reserve	30(c), 30(e), 31(a)	—	—	**4,632**	—	—	**11**	—	**(4,643)**	—	—
Exchange differences	30(f)	—	—	—	—	—	—	**(19)**	—	—	**(19)**
Profit distributions	31(c)	—	—	—	—	—	—	—	**(3,370)**	—	**(3,370)**
As at 31 December 2006		**224,689**	**42,091**	**11,133**	—	**(1,226)**	**10,343**	**(13)**	**43,092**	**95**	**330,204**
As at 1 January 2005		194,230	—	343	171	(276)	—	—	1,048	35	195,551
Shares issued	30(a)	30,459	—	—	—	—	—	—	—	—	30,459
Share premium arising from shares issued	30(b)	—	42,091	—	—	—	—	—	—	—	42,091
Minority interest in a new subsidiary		—	—	—	—	—	—	—	—	70	70
Net profit for the year		—	—	—	—	—	—	—	47,103	(7)	47,096
Net change in fair value of available-for-sale investments	30(d)	—	—	—	—	(859)	—	—	—	—	(859)
Net loss realised on disposal of available-for-sale investments	30(d)	—	—	—	—	312	—	—	—	—	312
Appropriations to statutory reserves and general reserve	30(c), 30(e), 31(a)	—	—	3,991	1,996	—	10,332	—	(16,319)	—	—
Exchange differences	30(f)	—	—	—	—	—	—	6	—	—	6
Profit distributions	31	—	—	—	—	—	—	—	(27,049)	—	(27,049)
As at 31 December 2005		224,689	42,091	4,334	2,167	(823)	10,332	6	4,783	98	287,677

The notes on pages 109 to 217 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY OF THE BANK

For the year ended 31 December 2006 (Expressed in millions of Renminbi)

	Note	Share capital	Capital reserve	Statutory surplus reserve fund	Statutory public welfare fund	Investment Revaluation reserve	General reserve	Exchange reserve	Retained earnings	Total equity
As at 1 January 2006		**224,689**	**42,091**	**4,334**	**2,167**	**(842)**	**10,332**	**6**	**4,607**	**287,384**
Net profit for the year		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**46,112**	**46,112**
Net change in fair value of available-for-sale investments	30(d)	**—**	**—**	**—**	**—**	**(635)**	**—**	**—**	**—**	**(635)**
Net loss realised on disposal of available-for-sale investments	30(d)	**—**	**—**	**—**	**—**	**229**	**—**	**—**	**—**	**229**
Transfers in/(out)	30(c)	**—**	**—**	**2,167**	**(2,167)**	**—**	**—**	**—**	**—**	**—**
Appropriations to statutory surplus reserve fund and general reserve	30(c), 30(e), 31(a)	**—**	**—**	**4,632**	**—**	**—**	**9**	**—**	**(4,641)**	**—**
Exchange differences	30(f)	**—**	**—**	**—**	**—**	**—**	**—**	**(9)**	**—**	**(9)**
Profit distributions	31(c)	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(3,370)**	**(3,370)**
As at 31 December 2006		**224,689**	**42,091**	**11,133**	**—**	**(1,248)**	**10,341**	**(3)**	**42,708**	**329,711**
As at 1 January 2005		194,230	—	343	171	(252)	—	—	1,018	195,510
Shares issued	30(a)	30,459	—	—	—	—	—	—	—	30,459
Share premium arising from shares issued	30(b)	—	42,091	—	—	—	—	—	—	42,091
Net profit for the year		—	—	—	—	—	—	—	46,957	46,957
Net change in fair value of available-for-sale investments	30(d)	—	—	—	—	(902)	—	—	—	(902)
Net loss realised on disposal of available-for-sale investments	30(d)	—	—	—	—	312	—	—	—	312
Appropriations to statutory reserves and general reserve	30(c), 30(e), 31(a)	—	—	3,991	1,996	—	10,332	—	(16,319)	—
Exchange differences	30(f)	—	—	—	—	—	—	6	—	6
Profit distributions	31	—	—	—	—	—	—	—	(27,049)	(27,049)
As at 31 December 2005		224,689	42,091	4,334	2,167	(842)	10,332	6	4,607	287,384

The notes on pages 109 to 217 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2006 (Expressed in millions of Renminbi)

	Note	2006	2005
Operating activities			
Profit before tax		**65,717**	55,364
Adjustments for:			
— Dividend income		**(424)**	(546)
— Revaluation gain on investments and derivatives	5	**(349)**	(210)
— Net gain on disposal of investments, property and equipment and other assets		**(1,202)**	(1,969)
— Unrealised foreign exchange losses		**6,897**	1,575
— Depreciation charges and amortisation	8	**6,994**	6,686
— Provisions for impairment losses		**19,214**	15,258
— Interest expense on subordinated bonds issued	2	**1,883**	1,850
		98,730	78,008
Changes in operating assets and liabilities:			
Increase in balances with central banks		**(62,519)**	(94,582)
Increase in amounts due from banks and non-bank financial institutions		**(3,026)**	(3,130)
Increase in loans and advances to customers		**(397,795)**	(240,302)
Increase in other operating assets		**(3,463)**	(10,718)
Increase/(decrease) in amounts due to central banks		**1,235**	(2,226)
Increase in amounts due to banks and non-bank financial institutions		**80,930**	52,485
Increase in deposits from customers		**694,470**	514,925
Increase in certificates of deposit issued		**741**	1,688
Income tax paid		**(9,257)**	(4,867)
Increase in other operating liabilities		**12,713**	12,163
Net cash from operating activities		**412,759**	303,444
Investing activities			
Proceeds from disposal and redemption of investments		**663,118**	591,361
Dividend received		**430**	540
Investment in new subsidiaries	32(c)	**(3,905)**	70
Proceeds from disposal of property and equipment and other assets		**796**	1,345
Payments on acquisition of investments		**(1,166,100)**	(895,920)
Payments on acquisition of property and equipment and other assets		**(10,018)**	(8,992)
Net cash used in investing activities		**(515,679)**	(311,596)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2006 (Expressed in millions of Renminbi)

	Note	2006	2005
Financing activities			
Dividend paid		**(6,638)**	(2,914)
Interest paid on subordinated bonds issued		**(1,872)**	(1,846)
Cost of issuing shares, net of interest income	30(b)	**—**	(2,089)
Proceeds from shares issuance	30(a), 30(b)	**—**	74,639
Proceeds from securitisation of retail mortgages		**—**	2,920
Net cash (used in)/from financing activities		**(8,510)**	70,710
Net (decrease)/increase in cash and cash equivalents		**(111,430)**	62,558
Cash and cash equivalents as at 1 January		**280,757**	220,106
Effect of exchange rate changes on cash held		**(1,838)**	(1,907)
Cash and cash equivalents as at 31 December	32(a)	**167,489**	280,757
Cash flows from operating activities include:			
Interest received		**210,070**	169,177
Interest paid, excluding interest expense on subordinated bonds issued		**(81,110)**	(52,552)

The notes on pages 109 to 217 form part of these financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES

With the approval of the State Council, China Construction Bank ("CCB") underwent a restructuring (the "Restructuring") on 30 December 2003. China Construction Bank Corporation (the "Bank") is a joint stock company with limited liability incorporated in the People's Republic of China (the "PRC") on 17 September 2004 as part of the Restructuring. The registered office of the Bank is located at No. 25, Finance Street, Xicheng District, Beijing, the PRC.

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

The consolidated financial statements for the year ended 31 December 2006 comprise the Bank and its subsidiaries and the Group's interest in associates.

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

(a) Statement of compliance

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

All IFRS in issue which are relevant to the Group have been applied, except for IFRS 7 Financial Instruments: Disclosures ("IFRS 7"), the amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures ("IAS 1 Amendment") and IFRS 8 Operating Segments ("IFRS 8"). IFRS 7 and IAS 1 Amendment were issued in August 2005 and are effective for annual accounting periods beginning on or after 1 January 2007. IFRS 8 was issued in November 2006 and is effective for annual accounting periods beginning on or after 1 January 2009.

IFRS 7 requires more detailed qualitative and quantitative disclosure, primarily on fair value and risk management information. The Group has assessed the impact of IFRS 7 and concluded that its adoption would only affect the level of detail in the disclosure of the financial statements, and would not have financial impact nor result in a change in the Group's accounting policies. The Group will apply IFRS 7 for annual accounting periods beginning 1 January 2007.

The disclosures required by IAS 1 Amendment on how the Group manages its capital and complies with external capital requirements, are mostly contained in the Annual Report. The Group will apply IAS 1 Amendment for annual accounting periods beginning 1 January 2007.

IFRS 8 requires operating segments to be identified, and their amounts disclosed in the financial statements, on the same basis as internally reported for the purpose of making decisions on the allocation of an entity's resources. The Group has assessed the impact of IFRS 8 and concluded that its adoption would have no significant impact on the Group's financial statements. The Group will apply IFRS 8 for annual accounting periods beginning 1 January 2009.

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

(b) Basis of preparation of the financial statements

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of preparation of the financial statements (Continued)

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

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

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

(c) Subsidiaries and minority interests

Subsidiaries are those enterprises controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its operating activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The results and affairs of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The Group does not consolidate Special Purpose Entities ("SPEs") that it does not control. As it can sometimes be difficult to determine whether the Group exercises control over SPEs, it makes judgements about risks and rewards as well as the ability to make operational decisions for the SPEs. In many instances, elements are present that, considered in isolation, indicate control or lack of control over a SPE, but when considered together make it difficult to reach a clear conclusion. When assessing whether the Group has to consolidate a SPE, the Group evaluates a range of factors, including whether (a) the Group will obtain the majority of the benefits of the activities of a SPE, (b) the Group retains the majority of the residual or ownership risks related to the assets in order to obtain the benefits from its activities, (c) the Group has the decision-making powers to obtain the majority of the benefits, or (d) the activities of the SPE are being conducted on behalf of the Group and according to the Group's specific business needs so that the Group obtains the benefits from the SPE's operations. The Group consolidates a SPE if an assessment of the relevant factors indicates that the Group obtains the majority of the benefits of its activities.

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

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

(c) Subsidiaries and minority interests (Continued)

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

In the Bank's balance sheet, its investments in subsidiaries are stated at cost less allowances for impairment losses, if any, (see Note 19).

(d) Associates

An associate is an entity in which the Group or the Bank has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of the associate's net assets. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associate for the year, including any impairment losses on goodwill, if any, relating to its investment in the associate recognised for the year.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For these purposes, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

(e) Goodwill

(i) Cost

Goodwill represents the excess of the cost of a business combination or an investment in an associate over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less any accumulated allowances for impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment.

Any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate is recognised immediately in profit or loss.

Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

(ii) Impairment

Internal and external sources of information are reviewed at each balance sheet date to identify indications that goodwill may be impaired. If any such indication exists, the recoverable amount of the goodwill is estimated annually to determine whether or not there is any impairment.

The recoverable amount of goodwill is the value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the cash-generating units with allocated goodwill.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Goodwill (Continued)

(ii) Impairment (Continued)

An impairment loss is recognised in the income statement whenever the carrying amount of the cash-generating unit with allocated goodwill exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units), and then to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value-in-use, if determinable.

An impairment loss in respect of goodwill is not reversed.

(iii) Disposal

On disposal of a cash-generating unit, or an investment in an associate, any attributable amount of the purchased goodwill net of impairment provision, if any, is included in the calculation of the profit or loss on disposal.

(f) Financial instruments

(i) Initial recognition

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

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

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

(ii) Categorisation

Fair value through profit or loss

Financial assets and financial liabilities at fair value through profit or loss include those financial assets and financial liabilities held principally for the purpose of short term profit taking and those designated by the Group upon recognition as at fair value through profit or loss. Financial assets and financial liabilities are designated at fair value through profit or loss upon initial recognition when:

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

— the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise;

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

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

All derivatives not qualified for hedging purposes are included in this category and are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial instruments (Continued)

(ii) Categorisation (Continued)

Loans and receivables

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

Securities classified as loans and receivables typically comprise of securities issued by the same customers with whom the Group has a lending relationship that are not quoted in an active market. Investment decisions for credit substitute securities are subject to the same credit approval processes as loans, and the Group bears the same customer risk as it does for loans extended to those customers. Additionally the yield and maturity terms are generally directly negotiated by the Group with the issuer.

Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than (a) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; and (b) those that meet the definition of loans and receivables.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity financial assets. They include financial assets intended to be held for an indefinite period of time, but which may be sold in response to needs for liquidity or changes in the market environment.

(iii) Subsequent measurement

Subsequent to initial recognition, financial assets and financial liabilities are measured at fair value, without any deduction for transaction costs that may occur on sale or other disposal except for loans and receivables, held-to-maturity financial assets and financial liabilities, other than trading liabilities and those designated as at fair value through profit or loss, are measured at amortised cost, less impairment losses, if any, using the effective interest method. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, and a derivative asset or a derivative liability that is linked to and must be settled by delivery of such unquoted equity instruments are carried at cost less impairment losses, if any.

Gains and losses from changes in the fair value of financial instruments at fair value through profit or loss are included in the income statement when they arise. Unrealised gains and losses arising from a change in the fair value of available-for-sale financial assets are recognised directly in equity in the investment revaluation reserve, except for impairment losses and foreign exchange gains and losses which are recognised in the income statement, until the financial asset is derecognised at which time the cumulative gains or losses previously recognised in equity will be recognised in the income statement. When the available-for-sale financial assets are sold, gains or losses on disposal include the difference between the net sale proceeds and the carrying value, and the accumulated fair value adjustments released from equity. For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in the income statement through the amortisation process or when the financial asset or financial liability is derecognised or impaired.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial instruments (Continued)

(iv) Fair value measurement principles

The fair value of financial instruments is based on their quoted market prices in an active market at the valuation date without any deduction for transaction costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices. A quoted market price is from an active market where price information is readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and that price information represents actual and regularly occurring market transactions on an arm's length basis. If a quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques that provide a reliable estimate of prices which could be obtained in actual market transactions.

Valuation techniques applied include recent arm's length market transactions between knowledgeable and willing parties, reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. Periodically the Group calibrates the valuation techniques and tests them for validity. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the balance sheet date applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on market data at the balance sheet date.

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

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

(v) Derecognition

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

(vi) Impairment

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

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

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

— Loans and receivables and held-to-maturity financial assets

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial instruments (Continued)

(vi) Impairment (Continued)

— Loans and receivables and held-to-maturity financial assets (Continued)

(vi-1) *Individually assessed financial assets*

Loans and receivables and held-to-maturity assets, which are considered individually significant, are assessed individually for impairment. This includes all loans and advances in the corporate lending portfolios.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity assets carried at amortised cost has been incurred on an individual basis, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of the asset).

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

— significant financial difficulty of the borrower;

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

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

— it is probable that the borrower will become bankrupt or go through other forms of financial reorganisation.

Individually impaired loans and advances are graded at a minimum at doubtful (see Note 37(a) for the definitions of the loan classification).

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

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

The calculation of the present value of the estimated future cash flows of a collateralised loan or receivable reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

(vi-2) *Collectively assessed financial assets*

Loans and receivables and held-to-maturity assets, which include the following, are assessed for impairment losses on a collective basis:

— homogeneous groups of loans not considered individually significant

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

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial instruments (Continued)

(vi) Impairment (Continued)

— Loans and receivables and held-to-maturity financial assets (Continued)

(vi-2) *Collectively assessed financial assets (Continued)*

Homogeneous groups of loans not considered individually significant

For homogeneous groups of loans, including all of the retail lending portfolio, that are not considered individually significant, the Group adopts a flow rate methodology to assess impairment losses on a collective basis. This methodology utilises a statistical analysis of historical trends of probability of default and amount of consequential loss, as well as an evaluation of current economic conditions that may have a consequential impact on inherent losses in the portfolio.

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

Loans which are individually significant and therefore have been individually assessed but for which no impairment can be identified, either due to the absence of any loss events or due to an inability to measure reliably the impact of loss events on future cash flows, are grouped together in portfolios of similar credit risk characteristics for the purpose of assessing a collective impairment loss. These loans include all the corporate loans and advances which are graded at normal, special mention or substandard (see Note 37(a) for the definitions of the loan classification). This assessment covers those loans and advances that were impaired at the balance sheet date but which will not be individually identified as such until some time in the future.

The collective impairment loss is assessed after taking into account:

— historical loss experience in portfolios of similar risk characteristics;

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

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

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

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

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. The reversal shall not result in a carrying amount of the financial asset that exceeds the amortised cost at the date of the reversal had the impairment not been recognised. The amount of the reversal is recognised in the income statement.

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

(f) Financial instruments (Continued)

(vi) Impairment (Continued)

— Loans and receivables and held-to-maturity financial assets (Continued)

(vi-2) *Collectively assessed financial assets (Continued)*

When management determine that a loan has no reasonable prospect of recovery after the Group has completed all the necessary legal or other proceedings, the loan is written off against its allowance for impairment losses. If in a subsequent period the loan written off is recovered, the amount recovered will be recognised in the income statement through impairment allowances.

— Available-for-sale financial assets

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

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

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

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

(vii) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet when the Group has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis, or by realising the asset and settling the liability simultaneously.

(viii) Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from its investment activities. In accordance with its treasury policy, the Group generally does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as financial assets and financial liabilities at fair value through profit or loss.

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

(ix) Embedded derivatives

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial instruments (Continued)

(x) Hedge accounting

Hedge accounting recognises the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item. The Group documents the relationship between the hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking the hedge, upon the inception of that relationship qualified for hedge accounting. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the financial instruments that are used in hedging transactions are highly effective in offsetting changes in fair values attributed to the hedged risks. The Group discontinues prospectively hedge accounting when (a) the hedging instrument expires or is sold, terminated or exercised; (b) the hedge no longer meets the criteria for hedge accounting; or (c) the Group revokes the designation.

Fair value hedges

A fair value hedge seeks to offset risks of changes in the fair value of a recognised asset or liability or committed transaction that will give rise to a gain or loss being recognised in the income statement.

The hedging instrument is measured at fair value, with fair value changes recognised in the income statement. Changes in the fair value of the hedged item which are attributable to the risks hedged with the hedging instrument are reflected as adjustments to the carrying value of the hedged item. This adjustment is recognised in the income statement to offset the effect of the gain or loss on the hedging instrument.

When a hedging instrument expires or is sold, terminated or exercised, or the Group revokes designation of the hedge relationship, any adjustment up to that point, to a hedged item for which the effective interest method is used, is amortised to the income statement as part of the recalculated effective interest rate of the hedged item over its remaining life.

Hedge effectiveness testing

In order to qualify for hedge accounting, the Group carries out prospective effectiveness testing to demonstrate that it expects the hedge to be highly effective at the inception of the hedge and throughout its life. Actual effectiveness (retrospective effectiveness) is also demonstrated on an ongoing basis.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method which the Group adopts for assessing hedge effectiveness will depend on its risk management strategy.

For fair value hedge relationships, the Group utilises the cumulative dollar offset method or regression analysis as effectiveness testing methodologies.

For prospective effectiveness, the hedging instrument must be expected to be highly effective in offsetting changes in fair values attributed to the hedged risk during the period for which the hedge is designated. For actual effectiveness, the changes in fair values must set off each other in the range of 80 per cent to 125 per cent for the hedge to be deemed effective.

(g) Repurchase and resale agreements

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Repurchase and resale agreements (Continued)

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

(h) Property and equipment

(i) Cost

Items of property and equipment other than construction in progress are stated at cost, or deemed cost, less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of attributable indirect costs.

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

Pursuant to the Restructuring, all property and equipment were revalued to fair value on 31 December 2003 by an independent professional valuer in the PRC, China Consultants of Accounting and Financial Management Co., Ltd ("CCAFM"). The revalued amount was adopted as the deemed cost of the property and equipment on 31 December 2003.

(ii) Subsequent costs

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

(iii) Depreciation

Depreciation is calculated to write off the cost or deemed cost, less estimated residual value if applicable, of items of property and equipment (excluding construction in progress) and is charged to the income statement on a straight-line basis over the estimated useful lives of each component of an item of property and equipment. The estimated useful lives are as follows:

	Estimated useful lives
Bank premises	30–35 years
Computer equipment	3–8 years
Others	4–11 years

Where an item of property and equipment comprises major components having different useful lives, the cost or deemed cost of the item is allocated on a reasonable basis between the components and each component is depreciated separately.

Both the useful life of an item of property and equipment and its residual value, if not insignificant, are reassessed annually.

(iv) Impairment

The carrying amount of property and equipment is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recognised in the income statement. The recoverable amount is the greater of the net selling price and value in use.

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Property and equipment (Continued)

(v) Disposal and retirement

Gains or losses arising from the disposal or retirement of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of disposal or retirement.

(i) Finance and operating lease

(i) Classification

Leases which transfer substantial risks and rewards of the ownership are classified as finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the lessees are classified as operating leases.

(ii) Finance leases

Where the Group is a lessor under finance leases, an amount representing the net investment in the lease is included in the balance sheet as "Loans and advances to customers". Finance income implicit in the lease payment is recognised as "Interest income" over the period of the leases in proportion to the funds invested. Hire purchase contracts having the characteristics of finance leases are accounted for in the same manner as finance leases. Impairment losses are accounted for in accordance with the accounting policy as set out in Note 1(f)(vi).

(iii) Operating lease

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

(j) Land use rights

Land use rights are stated at cost or deemed cost, being the fair value on 31 December 2003 determined by CCAFM, using the comparable market basis.

Land use rights are amortised on a straight-line basis over the respective periods of grant of 30–50 years.

(k) Repossessed assets

In the recovery of impaired loans and advances, the Group may take repossession of assets held as collateral through court proceedings or voluntary delivery of possession by the borrowers. Where it is intended to achieve an orderly realisation and the Group is no longer seeking repayment from the borrower, repossessed assets are reported in "Other assets".

Repossessed assets are initially recognised at the carrying value of the loan principal and interest receivable, net of respective allowances for impairment losses, upon the seizure of these assets in lieu of the rights on the loans and advances and interest receivable. An impairment loss is recognised in the income statement whenever the carrying amount of such an asset exceeds its recoverable amount. They are not depreciated or amortised.

(l) Cash equivalents

Cash equivalents comprise non-restricted balances with central banks, banks and non-bank financial institutions, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Provisions and contingent liabilities

(i) Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. If the effect of the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(ii) Financial guarantees issued

Financial guarantees are contracts that require the guarantor (the "issuer") to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs when a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee to customers, the fair value of the guarantee (being the guarantee fees received) is initially recognised as deferred income in "Other liabilities and provisions". Where the Bank issues a financial guarantee to a third party to guarantee the debt obligation of the Bank's subsidiaries, the fair value of the guarantee is estimated and capitalised as the cost of investment in subsidiaries and deferred income in "Other liabilities and provisions".

The deferred income is amortised over the term of the guarantee and is recognised in the income statement as income from financial guarantees issued. In addition, provisions are recognised in the balance sheet in accordance with Note 1(m)(i) if and when (a) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (b) the amount of that claim on the Group is expected to exceed the carrying amount of the deferred income.

(iii) Contingent liabilities acquired in business combinations

Contingent liabilities acquired as part of a business combination are initially recognised at fair value, provided that the fair value can be estimated reliably. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with Note 1(m)(i). Contingent liabilities acquired in a business combination that cannot be reliably estimated are disclosed in accordance with Note 1(m)(i).

(n) Employee benefits

(i) Employment benefits

Salaries and bonuses, housing benefits and costs for social security benefits are accrued in the year in which the services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Post employment benefits

Post employment benefits of the Group mainly include retirement benefits, and supplementary retirement benefits to the employees who retired on or before 31 December 2003.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Employee benefits (Continued)

(ii) Post employment benefits (Continued)

Defined contribution retirement schemes

Obligations for contributions to defined contribution retirement schemes are recognised as an expense in the income statement as incurred for current employees.

Supplementary retirement benefits

The Group's obligations in respect of supplementary retirement benefits are calculated by estimating the amount of future benefits that the Group is committed to pay to the employees after their retirement using actuarial techniques. Such benefits are discounted to determine their present values. The discount rate is the yield on PRC government bonds at the balance sheet date, the maturity dates of which approximate to the terms of the Group's obligations. In calculating the Group's obligations, to the extent that any cumulative unrecognised gains or losses exceed 10% of the present value of the obligation at the balance sheet date, that portion is recognised in the income statement. Otherwise, the gain or loss is not recognised.

(o) Income tax

Income tax in the income statement comprises current tax and movements in deferred tax balances. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets also arise from unused tax losses and unused tax credits. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced by the extent that it is no longer probable that the related tax benefit will be realised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group or the Bank has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Group or the Bank intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

    — the same taxable entity; or

    — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(p) Fiduciary activities

The Group acts in a fiduciary capacity as a custodian, trustee or an agent for customers. Assets held by the Group and the related undertakings to return such assets to customers are excluded from the financial statements as the risks and rewards of the assets reside with the customers.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Fiduciary activities (Continued)

Entrusted lending and wealth management services are the principal fiduciary activities of the Group. Entrusted lending is the business where the Group enters into entrusted loan agreements with customers, whereby the customers provide funding (the "entrusted funds") to the Group, and the Group grants loans to third parties (the "entrusted loans") at the instruction of the customers. As the Group does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, entrusted loans and funds are recorded as off-balance sheet items at their principal amounts and no impairment assessments are made for these entrusted loans.

Wealth management services refer to the sales of wealth management products by the Group to corporate and personal customers from whom the Group obtains funding to invest in investment products. As the Group does not assume the risks and rewards of the wealth management investment products, the investments and the funds obtained are recorded as off-balance sheet items.

(q) Income recognition

Provided it is probable that economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) Interest income

Interest income for all interest-bearing assets is recognised as interest income in the income statement using the effective interest method or an applicable floating rate. Interest income includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

The accrual of interest income of a loan where principal or interest of which is overdue over 90 days based on the original terms of the claim is discontinued. Instead, interest will continue to be recognised on the impaired financial assets using the rate of interest used to discount future cash flows ("unwinding of discount") for the purpose of measuring the related impairment loss.

(ii) Fee and commission income

Fee and commission income is recognised in the income statement when the corresponding service is provided.

Origination or commitment fees received by the Group which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. If the commitment expires without the Group making a loan, the fee is recognised as revenue on expiry.

(iii) Finance income from finance lease and hire purchase contract

Finance income implicit in finance lease and hire purchase payments is recognised as interest income over the period of the leases so as to produce an approximately constant periodic rate of return on the outstanding net investment in the leases for each accounting period. Contingent rentals receivable are recognised as income in the accounting period in which they are earned.

(iv) Dividend income

Dividend income from unlisted investment is recognised in the income statement on the date when the Group's right to receive payment is established. Dividend income from a listed investment is recognised when the share price of the investment goes ex-dividend.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Foreign currency translation

Transactions in foreign currencies are translated into Renminbi at the foreign exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rates ruling at that date.

Non-monetary assets and liabilities that are measured at historical cost in foreign currencies are translated into Renminbi using the foreign exchange rates at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value in foreign currencies are translated using the foreign exchange rates at the date the fair value is determined.

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

The assets and liabilities of overseas operations including goodwill arising on consolidation of overseas operations are translated into Renminbi at the foreign exchange rates ruling at the balance sheet date. The income and expenses and cash flows of overseas operations are translated into Renminbi at rates approximating the foreign exchange rates ruling at the date of the transaction. Foreign exchange differences arising from translation are recognised directly in a separate component of equity.

On disposal of an overseas operation, the cumulative amount of the foreign exchange differences recognised in equity which relate to that overseas operation is included in the calculation of the profit or loss on disposal.

(s) Dividend payable

Dividend payable is recognised as a liability in the year in which they are approved and declared.

(t) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

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

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(u) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

2 NET INTEREST INCOME

	2006	2005
Interest income arising from:		
Balances with central banks	**7,276**	6,675
Amounts due from banks and non-bank financial institutions	**4,318**	3,442
Loans and advances to customers (note (i))		
— corporate loans	**118,577**	97,975
— personal loans	**29,420**	23,789
— discounted bills	**5,459**	5,341
Investments in debt securities (note (ii))	**50,139**	36,379
Total interest income	**215,189**	173,601
Interest expense arising from:		
Amounts due to banks and non-bank financial institutions	**(4,877)**	(2,920)
Deposits from customers	**(67,811)**	(52,084)
Subordinated bonds issued	**(1,883)**	(1,850)
Others	**(250)**	(196)
Total interest expense	**(74,821)**	(57,050)
Net interest income	**140,368**	116,551

Notes:

(i) Interest income arising from loans and advances to customers includes interest income accrued on individually assessed impaired loans and advances to customers of RMB941 million for the year ended 31 December 2006 (2005: RMB809 million), which includes interest income on the unwinding of discount of allowances for loan impairment losses of RMB896 million for the year ended 31 December 2006 (2005: RMB725 million) (Note 17(b)).

(ii) Interest income from investments in debt securities is mainly derived from unlisted debt investments.

For the year ended 31 December 2006 (Expressed in millions of Renminbi unless otherwise stated)

3 NET FEE AND COMMISSION INCOME

	2006	2005
Fee and commission income:		
Agency fees for securities, foreign currency dealing and insurance services	**3,934**	1,927
Bank card fees	**3,836**	2,618
Remittance, settlement and account management fees	**2,768**	2,116
Consultancy and advisory fees	**1,466**	848
Commission on trust business	**1,229**	946
Guarantee fees	**636**	290
Payment and collection services fees	**335**	246
Others	**423**	270
Total fee and commission income	**14,627**	9,261
Fee and commission expenses:		
Bank card transaction fees	**(573)**	(417)
Inter-bank transaction fees	**(245)**	(212)
Others	**(238)**	(177)
Total fee and commission expense	**(1,056)**	(806)
Net fee and commission income	**13,571**	8,455

4 DIVIDEND INCOME

The Group's dividend income was mainly derived from unlisted equity investments.

5 NET GAIN ARISING FROM DEALING SECURITIES

	2006	2005
Net gain on debt securities dealing	**41**	12
Revaluation gain on investments and derivatives	**349**	210
Others	**229**	233
	619	455

6 NET GAIN ARISING FROM INVESTMENT SECURITIES

	2006	2005
Net gain on disposal	**1,354**	2,392
Net revaluation loss transferred from equity on disposal	**(342)**	(465)
	1,012	1,927

Net gain on disposal primarily relates to available-for-sale securities.

7 OTHER OPERATING (LOSS)/INCOME

	2006	2005
Net foreign exchange loss	**(6,068)**	(1,306)
Net gain on disposal of property and equipment	**149**	30
Others	**1,518**	2,056
	(4,401)	780

For the year ended 31 December 2006 (Expressed in millions of Renminbi unless otherwise stated)

8 OPERATING EXPENSES

	2006	2005
Staff costs		
— salaries, bonuses and staff welfare expenses	**23,503**	19,569
— contributions to defined contribution retirement schemes	**2,449**	2,149
— housing allowance	**1,625**	1,602
— supplementary retirement benefits (Note 28(b))	**654**	239
— staff termination costs	**99**	369
— others	**3,955**	3,370
	32,285	27,298
Premises and equipment expenses		
— depreciation charges	**5,998**	5,643
— rent and property management expenses	**2,507**	2,249
— utilities	**1,033**	993
— maintenance	**863**	937
— others	**732**	730
	11,133	10,552
Other general and administrative expenses (note (i))	**13,271**	11,798
Business tax and surcharges (note (ii))	**8,977**	7,401
Amortisation expense	**996**	1,043
	66,662	58,092

Notes:

(i) The amount includes auditors' remuneration of RMB134 million for the year ended 31 December 2006 (2005: RMB141 million).

(ii) Business tax of 5% is levied primarily on interest income from loans and advances to customers, and fee and commission income.

The surcharges, which include education surcharges and city construction tax, are charged at 3% and between 1% and 7% of business tax paid respectively.

9 PROVISIONS FOR IMPAIRMENT LOSSES

(a) Impairment losses on loans and advances to customers

	2006
Additions	**23,396**
Releases	**(4,399)**
	18,997

(b) Other impairment losses

	2006	2005
Available-for-sale securities	**213**	948
Property and equipment	**42**	293
Others	**(38)**	311
	217	1,552

For the year ended 31 December 2006 (Expressed in millions of Renminbi unless otherwise stated)

10 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The aggregate of the emoluments before individual income tax in respect of the Directors and Supervisors who held office during the year is as follows:

	2006							
	Fees RMB'000	Salaries RMB'000	(note (vii)) Discretionary bonus paid during the year RMB'000	(note(i)) Discretionary bonus payable RMB'000	Sub-total RMB'000	Contributions to defined contribution retirement schemes RMB'000	(note (viii)) Other benefits in kind RMB'000	Total RMB'000
Executive directors								
Guo Shuqing	—	520	240	423	1,183	19	214	1,416
Zhang Jianguo (note (ii))	—	208	200	76	484	—	21	505
Zhao Lin	—	426	211	424	1,061	19	209	1,289
Luo Zhefu (note (ii))	—	426	211	411	1,048	19	196	1,263
Non-executive directors								
Zhu Zhenmin (note (iii))	360	—	—	—	360	—	—	360
Jing Xuecheng (note (iii))	360	—	—	—	360	—	—	360
Wang Shumin (note (iii))	360	—	—	—	360	—	—	360
Wang Yonggang (note (iii))	360	—	—	—	360	—	—	360
Liu Xianghui (note (iii))	373	—	—	—	373	—	—	373
Zhang Xiangdong (note (iii))	380	—	—	—	380	—	—	380
Gregory L. Curl (note (iv))	390	—	—	—	390	—	—	390
Independent non-executive directors								
Song Fengming	440	—	—	—	440	—	—	440
Yashiro Masamoto	440	—	—	—	440	—	—	440
Tse Hau Yin, Aloysius	423	—	—	—	423	—	—	423
Elaine La Roche	390	—	—	—	390	—	—	390
Lord Peter Levene (note (ii))	90	—	—	—	90	—	—	90
Supervisors								
Xie Duyang	—	478	221	389	1,088	19	216	1,323
Liu Jin	—	307	127	262	696	19	123	838
Jin Panshi	—	307	127	261	695	19	150	864
Chen Yueming (note (v))	250	—	—	—	250	—	—	250
Cheng Meifen (note (vi))	26	—	—	—	26	—	—	26
Sun Zhixin (note (ii) & (vi))	9	—	—	—	9	—	—	9
Ning Liming (note (ii) & (vi))	9	—	—	—	9	—	—	9
Cui Jianmin	270	—	—	—	270	—	—	270
Guo Feng	250	—	—	—	250	—	—	250
	5,180	2,672	1,337	2,246	11,435	114	1,129	12,678
Former executive directors resigned in 2006								
Chang Zhenming	—	291	137	248	676	11	114	801
Liu Shulan	—	213	106	195	514	9	86	609
	5,180	3,176	1,580	2,689	12,625	134	1,329	14,088

10 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (CONTINUED)

	2005							
	Fees RMB'000	Salaries RMB'000	Discretionary bonus paid during the year RMB'000	(note(i)) Discretionary bonus payable RMB'000	Sub-total RMB'000	Contributions to defined contribution retirement schemes RMB'000	(note(viii)) Other benefits in kind RMB'000	Total RMB'000
Executive directors								
Guo Shuqing	—	375	180	236	791	13	50	854
Chang Zhenming	—	480	235	311	1,026	16	63	1,105
Liu Shulan	—	410	211	269	890	16	73	979
Zhao Lin	—	410	211	276	897	16	73	986
Non-executive directors								
Zhu Zhenmin (note (iii))	227	—	—	—	227	—	—	227
Jing Xuecheng (note (iii))	227	—	—	—	227	—	—	227
Wang Shumin (note (iii))	227	—	—	—	227	—	—	227
Wang Yonggang (note (iii))	227	—	—	—	227	—	—	227
Liu Xianghui (note (iii))	227	—	—	—	227	—	—	227
Zhang Xiangdong (note (iii))	240	—	—	—	240	—	—	240
Gregory L. Curl (note (iv))	87	—	—	—	87	—	—	87
Independent non-executive directors								
Song Fengming	287	—	—	—	287	—	—	287
Yashiro Masamoto	273	—	—	—	273	—	—	273
Tse Hau Yin, Aloysius	268	—	—	—	268	—	—	268
Elaine La Roche	123	—	—	—	123	—	—	123
Supervisors								
Xie Duyang	—	460	221	288	969	16	63	1,048
Liu Jin	—	265	128	163	556	16	36	608
Jin Panshi	—	265	120	170	555	16	66	637
Chen Yueming (note (v))	200	—	—	—	200	—	—	200
Cheng Meifen (note (vi))	—	—	—	—	—	—	18	18
Cui Jianmin	150	—	—	—	150	—	—	150
Guo Feng	120	—	—	—	120	—	—	120
	2,883	2,665	1,306	1,713	8,567	109	442	9,118
Former executive Director resigned in 2005								
Zhang Enzhao	—	58	—	—	58	5	16	79
	2,883	2,723	1,306	1,713	8,625	114	458	9,197

Notes:

(i) The amounts of discretionary bonus payable as at 31 December 2006 in respect of the services rendered by the Directors and Supervisors are subject to approval of the Bank's shareholders in the Annual General Meeting to be held on 13 June 2007. The amounts payable as at 31 December 2005 were approved in the Annual General Meeting held on 15 June 2006 and paid during the year ended 31 December 2006.

For the year ended 31 December 2006 (Expressed in millions of Renminbi unless otherwise stated)

10 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (CONTINUED)

Notes (Continued):

(ii) Mr Zhang Jianguo was appointed as the vice chairman of the board of directors and executive director of the Bank on 20 October 2006. Mr Luo Zhefu was appointed as an executive director of the Bank on 15 June 2006. Lord Peter Levene was appointed as an independent non-executive director of the Bank on 15 June 2006. Mr Sun Zhixin and Ms Ning Liming were appointed as Supervisors on 23 October 2006.

(iii) The amounts will be payable to Central SAFE Investments Limited ("Huijin") for the services of the respective Directors after the approval of the Bank's shareholders as mentioned in note (i).

(iv) The amount will be payable to Bank of America Corporation for his services as Director after the approval of the Bank's shareholders as mentioned in note (i).

(v) The amount will be payable to State Grid Corporation of China for her services as Supervisor after the approval of the Bank's shareholders as mentioned in note (i).

(vi) The amounts only included the fees for their services as Supervisors.

(vii) The amounts of discretionary bonus paid to Directors and Supervisors in 2006 relating to their services rendered in 2005 were excluded from the discretionary bonus paid in 2006.

(viii) Other benefits in kind included the Bank's contributions to medical fund, housing provident fund and other social insurance schemes, which are payable to labour and securities authorities based on the lower of certain percentages of the salaries or the prescribed upper limits as required by the relevant regulations issued by the government authorities. Other benefits also included the Bank's contributions to its own corporate annuity plan, which was set up in accordance with the relevant government policies, and supplementary medical insurance scheme.

(ix) None of the Directors and Supervisors received any inducements, or compensation for loss of office, or waived any emoluments during the years ended 31 December 2006 and 2005.

11 INDIVIDUALS WITH HIGHEST EMOLUMENTS

None of the five individuals with the highest emoluments are Directors or Supervisors whose emoluments are disclosed in Note 10 above. The aggregate of the emoluments before individual income tax in respect of the five highest paid individuals during the year is as follows:

	2006 RMB'000	2005 RMB'000
Salaries and other emoluments	**8,734**	10,400
Discretionary bonuses	**3,830**	5,481
Contributions to defined contribution retirement schemes	**611**	681
	13,175	16,562

11 INDIVIDUALS WITH HIGHEST EMOLUMENTS (CONTINUED)

The number of these individuals whose emoluments before individual income tax are within the following bands is set out below.

	2006	2005
RMB1,500,001 – RMB2,000,000	—	—
RMB2,000,001 – RMB2,500,000	3	—
RMB2,500,001 – RMB3,000,000	1	2
RMB3,000,001 – RMB3,500,000	1	1
RMB3,500,001 – RMB4,000,000	—	1
RMB4,000,001 – RMB4,500,000	—	1

None of these individuals received any inducements, or compensation for loss of office, or waived any emoluments during the years ended 31 December 2006 and 2005.

12 LOANS TO DIRECTORS, SUPERVISORS AND OFFICERS

There were no loans to the Directors, Supervisors and Officers (and their affiliates) of the Bank as defined under section 161B of the Hong Kong Companies Ordinance during the years ended 31 December 2006 and 2005.

13 INCOME TAX

(a) Recognised in the consolidated income statement

	2006	2005
Current tax		
— Mainland China	21,586	8,668
— Hong Kong	77	87
— Overseas	15	10
	21,678	8,765
Adjustments for prior years	(212)	—
	21,466	8,765
Deferred tax (Note 23)	(2,068)	(497)
Total income tax	19,398	8,268

For the year ended 31 December 2006 (Expressed in millions of Renminbi unless otherwise stated)

13 INCOME TAX (CONTINUED)

(b) Reconciliation of profit before tax to income tax

	2006	2005
Profit before tax	**65,717**	55,364
Expected PRC income tax charged at statutory tax rate of 33% (note (i))	**21,687**	18,270
Non-deductible expenses (note (ii))		
— Staff costs	**427**	403
— Impairment losses	**146**	373
— Others	**339**	233
	912	1,009
Non-taxable income		
— Interest income from PRC government bonds	**(2,790)**	(2,772)
— Others	**(199)**	(391)
	(2,989)	(3,163)
	19,610	16,116
Adjustments for prior years	**(212)**	—
Less: Tax exemption (note (iii))	**—**	(7,848)
Total income tax	**19,398**	8,268

Notes:

(i) The expected PRC income tax of the Group is calculated based on the statutory tax rate of 33% in accordance with the relevant PRC income tax rules and regulations.

(ii) Amounts primarily represent staff costs and impairment losses on assets such as property, equipment and intangible assets in excess of the deductible amounts, and entertainment expenses which are not tax deductible.

In accordance with an approval notice issued in March 2006 by the Ministry of Finance of the PRC (the "MOF") and the State Administration of Taxation of the PRC, with effect from 1 January 2006, the Bank's tax deductible staff costs are calculated based on the previous year's tax deductible staff costs, adjusting for the performance of the Bank.

(iii) In accordance with an approval notice issued by the MOF and the State Administration of Taxation of the PRC in June 2005, a substantial amount of the Group's income tax for the six months ended 30 June 2005 was exempted. The amount of income tax exempted for the six months ended 30 June 2005 was RMB7,848 million. The Group did not have such exemption of income tax after 30 June 2005.

14 EARNINGS PER SHARE

Basic earnings per share for the year ended 31 December 2006 have been computed by dividing the net profit attributable to shareholders of the Bank by 224,689 million shares, being the shares that were in issue and outstanding during the year.

Basic earnings per share for the year ended 31 December 2005 have been computed by dividing the net profit attributable to shareholders of the Bank by 199,542 million shares, being the weighted average number of shares that were in issue and outstanding during the year.

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

15 CASH AND BALANCES WITH CENTRAL BANKS

	Group		Bank	
	2006	2005	**2006**	2005
Cash	**30,191**	28,413	**30,104**	28,413
Balances with central banks				
— Statutory deposit reserves (note (i))	**402,835**	281,783	**402,835**	281,783
— Surplus deposit reserve (note (ii))	**103,767**	108,395	**103,737**	108,395
— Fiscal deposits	**2,880**	4,175	**2,880**	4,175
— Balances under resale agreements	**—**	57,370	**—**	57,370
	509,482	451,723	**509,452**	451,723
Total	**539,673**	480,136	**539,556**	480,136

Notes:

(i) The Group places statutory deposit reserves with the People's Bank of China (the "PBOC") and the central banks of certain overseas countries where it has operations. The statutory deposit reserves are not available for the Group's daily business.

As at 31 December 2006, the statutory deposit reserve placed with the PBOC was calculated at 9% (2005: 7.5%) of eligible Renminbi deposits for domestic branches of the Bank. The Bank was also required to deposit an amount equivalent to 4% (2005: 3%) of its foreign currency deposits from domestic branch customers as a statutory deposit reserve.

The amounts of statutory deposit reserves placed with the central banks of those overseas countries are determined by local jurisdiction.

(ii) The surplus deposit reserve is maintained with the PBOC for the purposes of clearing.

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16 AMOUNTS DUE FROM BANKS AND NON-BANK FINANCIAL INSTITUTIONS

(a) Analysed by nature

	Group		Bank	
	2006	2005	**2006**	2005
Money market placements	**31,557**	155,728	**25,679**	155,674
Balances under resale agreements	**33,289**	13,808	**33,289**	13,808
Deposits	**18,259**	22,036	**17,978**	22,000
Gross balances	**83,105**	191,572	**76,946**	191,482
Less: Allowances for impairment losses (Note 16(d))	**(920)**	(1,464)	**(920)**	(1,464)
Net balances	**82,185**	190,108	**76,026**	190,018

(b) Analysed by geographical location

	Group		Bank	
	2006	2005	**2006**	2005
Balances with				
— Banks in Mainland China	**31,659**	24,366	**31,659**	24,366
— Non-bank financial institutions in Mainland China (note)	**28,275**	19,440	**28,275**	19,440
	59,934	43,806	**59,934**	43,806
Balances with banks outside Mainland China	**23,171**	147,766	**17,012**	147,676
Gross balances	**83,105**	191,572	**76,946**	191,482
Gross balances with banks and non-bank financial institutions				
— maturing within one month	**64,344**	108,230	**58,831**	108,140
— maturing between one month and one year	**18,379**	81,522	**17,833**	81,522
— maturing after one year	**382**	1,820	**282**	1,820
	83,105	191,572	**76,946**	191,482

Note: Non-bank financial institutions in Mainland China represent financial institutions, registered with and under the supervision of the China Banking Regulatory Commission (the "CBRC"), other than banks in Mainland China.

16 AMOUNTS DUE FROM BANKS AND NON-BANK FINANCIAL INSTITUTIONS (CONTINUED)

(c) Analysed by legal form of counterparty

	Group		Bank	
	2006	2005	**2006**	2005
Balances with				
— PRC policy banks	**2,007**	1,292	**2,007**	1,292
— PRC state-owned banks and non-bank financial institutions	**21,447**	14,766	**21,447**	14,766
— PRC joint-stock banks and non-bank financial institutions	**32,242**	29,554	**32,236**	29,554
— Foreign-invested banks and non-bank financial institutions	**27,409**	145,960	**21,256**	145,870
Gross balances	**83,105**	191,572	**76,946**	191,482
Less: Allowances for impairment losses on balances with				
— PRC state-owned banks and non-bank financial institutions	**(634)**	(1,011)	**(634)**	(1,011)
— PRC joint-stock banks and non-bank financial institutions	**(286)**	(453)	**(286)**	(453)
Total allowances for impairment losses	**(920)**	(1,464)	**(920)**	(1,464)
Net balances	**82,185**	190,108	**76,026**	190,018

(d) Movements of allowances for impairment losses

	Group and Bank	
	2006	2005
As at 1 January	**1,464**	2,650
Charge for the year	**9**	16
Write-offs	**(553)**	(1,202)
As at 31 December	**920**	1,464

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17 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysed by nature

	Group		Bank	
	2006	2005	**2006**	2005
Corporate loans	**2,112,751**	1,809,836	**2,099,976**	1,808,046
Personal loans	**599,340**	454,253	**585,303**	453,943
Discounted bills	**160,738**	194,309	**159,425**	194,309
Finance leases	**780**	—	**—**	—
Gross loans and advances to customers	**2,873,609**	2,458,398	**2,844,704**	2,456,298
Less: Allowances for impairment losses (Note 17(b))	**(77,633)**	(63,085)	**(77,472)**	(63,072)
Net loans and advances to customers	**2,795,976**	2,395,313	**2,767,232**	2,393,226

(b) Movements of allowances for impairment losses

	Group			
	2006			
		Allowances for impaired loans and advances		
	Allowances for loans and advances which are collectively assessed	which are collectively assessed	which are individually assessed	Total
As at 1 January	19,429	13,234	30,422	63,085
Write-offs	—	(174)	(3,155)	(3,329)
Transfer out (note)	—	(27)	(479)	(506)
Acquisition of subsidiary	122	—	31	153
Recoveries	—	—	129	129
Charge for the year				
— new impairment allowances charged to income statement	2,582	897	19,917	23,396
— impairment allowances released to income statement	—	—	(4,399)	(4,399)
Unwinding of discount	—	—	(896)	(896)
As at 31 December	22,133	13,930	41,570	77,633

17 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(b) Movements of allowances for impairment losses (Continued)

	Group			
	2005			
	Allowances for loans and advances which are collectively assessed	Allowances for impaired loans and advances which are collectively assessed	Allowances for impaired loans and advances which are individually assessed	Total
As at 1 January	19,500	14,102	20,262	53,864
Write-offs	—	(78)	(3,706)	(3,784)
Transfer out (note)	—	(55)	(38)	(93)
Recoveries	—	—	117	117
Net charge for the year	(71)	(735)	14,512	13,706
Unwinding of discount	—	—	(725)	(725)
As at 31 December	19,429	13,234	30,422	63,085

	Bank			
	2006			
	Allowances for loans and advances which are collectively assessed	**Allowances for impaired loans and advances which are collectively assessed**	**Allowances for impaired loans and advances which are individually assessed**	**Total**
As at 1 January	**19,419**	**13,233**	**30,420**	**63,072**
Write-offs	**—**	**(174)**	**(3,150)**	**(3,324)**
Transfer out (note)	**—**	**(27)**	**(476)**	**(503)**
Recoveries	**—**	**—**	**129**	**129**
Charge for the year				
— new impairment allowances charged to income statement	**2,582**	**897**	**19,914**	**23,393**
— impairment allowances released to income statement	**—**	**—**	**(4,399)**	**(4,399)**
Unwinding of discount	**—**	**—**	**(896)**	**(896)**
As at 31 December	**22,001**	**13,929**	**41,542**	**77,472**

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17 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(b) Movements of allowances for impairment losses (Continued)

	Bank			
	2005			
	Allowances for loans and advances which are collectively assessed	Allowances for impaired loans and advances which are collectively assessed	Allowances for impaired loans and advances which are individually assessed	Total
As at 1 January	19,490	14,094	20,245	53,829
Write-offs	—	(78)	(3,690)	(3,768)
Transfer out (note)	—	(48)	(38)	(86)
Recoveries	—	—	116	116
Net charge for the year	(71)	(735)	14,512	13,706
Unwinding of discount	—	—	(725)	(725)
As at 31 December	19,419	13,233	30,420	63,072

Note: Transfers out include the net transfer of allowances for impairment losses to/from repossessed assets and debt equity swap investments.

17 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(c) Loans and advances to customers and allowances

	Group				
	2006				
	(note (i)) Loans and advances for which allowances are collectively assessed	(note (ii)) Impaired loans and advances: for which allowances are collectively assessed	for which allowances are individually assessed	Total	Gross impaired loans and advances as a % of gross total loans and advances
Gross loans and advances to					
— financial institutions	259	—	—	259	—
— non-financial institutions	2,778,951	35,976	58,423	2,873,350	3.29%
	2,779,210	35,976	58,423	2,873,609	3.29%
Less: Allowances for impairment losses on loans and advances to					
— financial institutions	(2)	—	—	(2)	
— non-financial institutions	(22,131)	(13,930)	(41,570)	(77,631)	
	(22,133)	(13,930)	(41,570)	(77,633)	
Net loans and advances to					
— financial institutions	257	—	—	257	
— non-financial institutions	2,756,820	22,046	16,853	2,795,719	
	2,757,077	22,046	16,853	2,795,976	

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17 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(c) Loans and advances to customers and allowances (Continued)

	Group				
	2005				
	(note (i)) Loans and advances for which allowances are collectively assessed	(note (ii)) Impaired loans and advances: for which allowances are collectively assessed	(note (ii)) Impaired loans and advances: for which allowances are individually assessed	Total	Gross impaired loans and advances as a % of gross total loans and advances
Gross loans and advances to					
— financial institutions	782	—	—	782	—
— non-financial institutions	2,363,147	46,989	47,480	2,457,616	3.84%
	2,363,929	46,989	47,480	2,458,398	3.84%
Less: Allowances for impairment losses on loans and advances to					
— financial institutions	(2)	—	—	(2)	
— non-financial institutions	(19,427)	(13,234)	(30,422)	(63,083)	
	(19,429)	(13,234)	(30,422)	(63,085)	
Net loans and advances to					
— financial institutions	780	—	—	780	
— non-financial institutions	2,343,720	33,755	17,058	2,394,533	
	2,344,500	33,755	17,058	2,395,313	

17 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(c) Loans and advances to customers and allowances (Continued)

	Bank				
	2006				
	(note (i)) Loans and advances for which allowances are collectively assessed	(note (ii)) Impaired loans and advances for which allowances are collectively assessed	for which allowances are individually assessed	Total	Gross impaired loans and advances as a % of gross total loans and advances
Gross loans and advances to					
— financial institutions	259	—	—	259	—
— non-financial institutions	2,750,207	35,976	58,262	2,844,445	3.31%
	2,750,466	35,976	58,262	2,844,704	3.31%
Less: Allowances for impairment losses on loans and advances to					
— financial institutions	(2)	—	—	(2)	
— non-financial institutions	(22,000)	(13,929)	(41,541)	(77,470)	
	(22,002)	(13,929)	(41,541)	(77,472)	
Net loans and advances to					
— financial institutions	257	—	—	257	
— non-financial institutions	2,728,207	22,047	16,721	2,766,975	
	2,728,464	22,047	16,721	2,767,232	

For the year ended 31 December 2006 (Expressed in millions of Renminbi unless otherwise stated)

17 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(c) Loans and advances to customers and allowances (Continued)

	Bank				
	2005				
	(note (i)) Loans and advances for which allowances are collectively assessed	(note (ii)) Impaired loans and advances for which allowances are collectively assessed	(note (ii)) Impaired loans and advances for which allowances are individually assessed	Total	Gross impaired loans and advances as a % of gross total loans and advances
Gross loans and advances to					
— financial institutions	782	—	—	782	—
— non-financial institutions	2,361,124	46,918	47,474	2,455,516	3.84%
	2,361,906	46,918	47,474	2,456,298	3.84%
Less: Allowances for impairment losses on loans and advances to					
— financial institutions	(2)	—	—	(2)	
— non-financial institutions	(19,417)	(13,233)	(30,420)	(63,070)	
	(19,419)	(13,233)	(30,420)	(63,072)	
Net loans and advances to					
— financial institutions	780	—	—	780	
— non-financial institutions	2,341,707	33,685	17,054	2,392,446	
	2,342,487	33,685	17,054	2,393,226	

Notes:

(i) Loans and advances assessed on a collective basis for impairment bear relatively insignificant impairment losses as a proportion of the total portfolio. These loans and advances include those which are graded normal or special-mention.

(ii) Impaired loans and advances include loans for which objective evidence of impairment exists and which have been assessed as bearing significant impairment losses. These loans include loans for which objective evidence of impairment has been identified:

— individually (including corporate loans and advances which are graded doubtful or loss); or

— collectively; that is portfolios of homogeneous loans (including retail loans and advances which are graded substandard, doubtful or loss) and portfolios of loans which have been individually assessed but for which no impairment can be identified individually (including corporate loans and advances which are graded substandard).

(iii) The definitions of the loan classifications stated in notes (i) and (ii) above are set out in Note 37(a).

(iv) There were no impaired loans and advances to financial institutions as at 31 December 2006 and 2005.

17 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(d) Analysed by legal form of borrowers

	Group		Bank	
	2006	2005	**2006**	2005
Corporate loans to				
— State-owned enterprises	**961,253**	844,404	**961,238**	844,210
— Joint-stock enterprises	**391,587**	374,427	**391,502**	374,132
— Private enterprises	**325,810**	214,509	**315,080**	214,509
— Foreign invested enterprises	**224,851**	183,486	**222,906**	182,185
— Collectively-controlled enterprises	**45,888**	42,963	**45,888**	42,963
— Jointly-owned enterprises	**18,308**	18,698	**18,308**	18,698
— Others	**145,054**	131,349	**145,054**	131,349
Subtotal	**2,112,751**	1,809,836	**2,099,976**	1,808,046
Personal loans	**599,340**	454,253	**585,303**	453,943
Discounted bills	**160,738**	194,309	**159,425**	194,309
Finance leases	**780**	—	**—**	—
Gross loans and advances to customers	**2,873,609**	2,458,398	**2,844,704**	2,456,298
Less: Allowances for impairment losses on				
Corporate loans to				
— State-owned enterprises	**(23,111)**	(20,555)	**(23,111)**	(20,554)
— Joint-stock enterprises	**(17,864)**	(13,866)	**(17,864)**	(13,864)
— Private enterprises	**(12,589)**	(8,765)	**(12,474)**	(8,765)
— Foreign invested enterprises	**(7,249)**	(6,096)	**(7,241)**	(6,087)
— Collectively-controlled enterprises	**(2,984)**	(2,778)	**(2,984)**	(2,778)
— Jointly-owned enterprises	**(918)**	(782)	**(918)**	(782)
— Others	**(2,949)**	(2,577)	**(2,949)**	(2,577)
Subtotal	**(67,664)**	(55,419)	**(67,541)**	(55,407)
Personal loans	**(9,782)**	(7,480)	**(9,763)**	(7,479)
Discounted bills	**(186)**	(186)	**(168)**	(186)
Finance leases	**(1)**	—	**—**	—
Total allowances for impairment losses	**(77,633)**	(63,085)	**(77,472)**	(63,072)
Net loans and advances to customers	**2,795,976**	2,395,313	**2,767,232**	2,393,226

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18 INVESTMENTS

	Group		Bank	
	2006	2005	**2006**	2005
Receivables (Note 18(a))	**546,357**	443,729	**546,357**	443,729
Held-to-maturity debt securities (Note 18(b))	**1,038,713**	643,978	**1,038,275**	643,671
Available-for-sale				
— debt securities (Note 18(c))	**309,089**	312,059	**306,751**	310,612
— equity investments (Note 18(d))	**9,617**	11,672	**9,150**	11,669
	318,706	323,731	**315,901**	322,281
Debt securities at fair value through profit or loss (Note 18(e))	**5,616**	2,433	**3,454**	2,433
Total	**1,909,392**	1,413,871	**1,903,987**	1,412,114

The Group's debt securities at fair value through profit or loss are held for trading purposes.

(a) Receivables

	Group and Bank	
	2006	2005
Due from issuers in Mainland China:		
Government		
— Special government bond (note (i))	**49,200**	49,200
— Others	**530**	530
The PBOC (note (ii) and (iv))	**186,631**	94,197
Policy banks	**54,833**	49,872
Cinda (note (iii))	**247,000**	247,000
Banks	**7,573**	2,930
Others	**590**	—
Total	**546,357**	443,729

18 INVESTMENTS (CONTINUED)

(a) Receivables (Continued)

Notes:

(i) This represents a non-negotiable bond with a nominal value of RMB49,200 million issued by the MOF in 1998 to strengthen the capital base of CCB. The bond matures in 2028 and bears a fixed interest rate of 2.25% per annum.

(ii) Due from the PBOC includes:

— a non-transferable bill with a nominal value of RMB63,354 million issued specifically to CCB as part of the Restructuring. The majority of the proceeds paid by China Cinda Asset Management Corporation ("Cinda") on the disposal of impaired loans and advances were used to subscribe to the PBOC bill. The bill matures in June 2009 and bears interest at a fixed rate of 1.89% per annum. The PBOC has the right to early settle the bill;

— a non-transferable bill with a nominal value of RMB21,000 million issued for settlement of CCB's receivables arising from its appointment by the State Council of the PRC and the PBOC to act as the receiver in respect of the liquidation of a trust and investment company (Note 27(b)). The bill matures in June 2007 and bears interest at a fixed rate of 1.89% per annum. The PBOC has an early redemption right on this bill subject to certain conditions; and

— a non-transferable bill with a nominal value of RMB593 million issued specially to the Bank in June 2006 for partial settlement of loans that had been transferred to asset management companies. The bill matures in June 2011 and bears interest at a fixed rate of 1.89% per annum.

(iii) Cinda issued a bond specifically to CCB in 1999 for the acquisition of CCB's impaired loans and advances at their original book value. The bond has a nominal value of RMB247,000 million and matures in September 2009. It bears interest at a fixed rate of 2.25% per annum. According to a notice issued by the MOF, starting from 1 January 2005, the MOF will provide financial support if Cinda is unable to repay the interest in full. The MOF will also provide support for the repayment of bond principal, if necessary.

(iv) As part of the Restructuring, the PBOC approved the Bank's use of the special government bond and the bill with a nominal value of RMB63,354 million issued by the PBOC as eligible assets equivalent to the surplus deposit reserve at PBOC for clearing purposes. The PBOC also approved a bill with a nominal value of RMB593 million issued by the PBOC in June 2006 as an eligible asset equivalent to the surplus deposit reserve for clearing purposes.

(v) All debt securities included as Receivables are unlisted.

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18 INVESTMENTS (CONTINUED)

(b) Held-to-maturity debt securities

	Group		Bank	
	2006	2005	**2006**	2005
Issued by:				
Governments				
— in Mainland China	**247,281**	205,649	**247,271**	205,639
— outside Mainland China	**25,636**	161	**25,636**	161
The PBOC	**391,853**	218,354	**391,794**	218,281
Policy banks				
— in Mainland China	**199,164**	144,507	**198,879**	144,467
— outside Mainland China	**7,244**	1,630	**7,244**	1,630
Banks and non-bank financial institutions				
— in Mainland China	**17,110**	17,115	**17,110**	17,115
— outside Mainland China	**94,930**	37,934	**94,900**	37,902
Public sector entities outside Mainland China	**52,230**	17,938	**52,230**	17,938
Others				
— in Mainland China (note)	**72**	176	**72**	176
— outside Mainland China	**3,193**	514	**3,139**	362
Total	**1,038,713**	643,978	**1,038,275**	643,671
Listed in Hong Kong	**2,989**	1,849	**2,989**	1,849
Listed outside Hong Kong	**84,044**	27,787	**84,014**	27,716
Unlisted	**951,680**	614,342	**951,272**	614,106
Total	**1,038,713**	643,978	**1,038,275**	643,671
Market value of listed securities	**86,344**	28,920	**86,314**	28,848

Note: Others in Mainland China as at 31 December 2006 represent debt securities issued by state-owned enterprises of RMB72 million (2005: RMB176 million).

18 INVESTMENTS (CONTINUED)

(c) Available-for-sale debt securities

	Group		Bank	
	2006	2005	**2006**	2005
At fair value and issued by:				
Governments				
— in Mainland China	**6,532**	13,404	**6,532**	13,404
— outside Mainland China	**24,344**	44,061	**24,077**	43,905
The PBOC	**141,642**	110,114	**141,642**	110,114
Central banks outside Mainland China	**—**	310	**—**	310
Policy banks				
— in Mainland China	**14,240**	10,429	**14,240**	10,429
— outside Mainland China	**1,623**	5,512	**1,623**	5,399
Banks and non-bank financial institutions				
— in Mainland China	**864**	—	**864**	—
— outside Mainland China	**73,874**	87,950	**71,856**	87,950
Public sector entities outside Mainland China	**25,174**	23,086	**25,174**	22,109
Others				
— in Mainland China (note)	**14,555**	13,245	**14,555**	13,245
— outside Mainland China	**6,241**	3,948	**6,188**	3,747
Total	**309,089**	312,059	**306,751**	310,612
Listed in Hong Kong	**1,872**	1,863	**1,732**	1,614
Listed outside Hong Kong	**52,893**	74,562	**52,734**	73,867
Unlisted	**254,324**	235,634	**252,285**	235,131
Total	**309,089**	312,059	**306,751**	310,612

Note: Others in Mainland China as at 31 December 2006 represent debt securities issued by state-owned enterprises and joint-stock enterprises of RMB8,449 million (2005: RMB3,424 million) and RMB6,106 million (2005: RMB9,821 million) respectively.

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18 INVESTMENTS (CONTINUED)

(d) Available-for-sale equity investments

	Group		Bank	
	2006	2005	**2006**	2005
At fair value:				
Debt equity swap investments (note)	**7,550**	10,886	**7,550**	10,886
Other equity investments	**2,067**	786	**1,600**	783
Total	**9,617**	11,672	**9,150**	11,669
Listed in Hong Kong	**1,825**	563	**1,426**	560
Listed outside Hong Kong	**—**	17	**—**	17
Unlisted	**7,792**	11,092	**7,724**	11,092
Total	**9,617**	11,672	**9,150**	11,669

Note: Pursuant to the arrangement by the PRC government in 1999, the Group acquired unlisted legal person shares ("debt equity swap investments") in certain corporate borrowers in lieu of repayments of loans granted to them. Pursuant to a notice (the "Notice") jointly issued by the State Economic & Trade Commission of the PRC and the PBOC on 5 July 1999, commercial banks are prohibited from being involved in the management of the operations of these corporate borrowers even though the banks hold equity interests through the above debt equity swap arrangement.

The Group is required to comply with the Notice and has not controlled the financial and operating policy decisions of these corporate borrowers nor exerted significant influence over these policies. In substance, the Group does not have any control or significant influence over these corporate borrowers. The Group has been advised by its external legal counsel that such direct ownership in these investments does not violate any of the prevailing laws and regulations in the PRC.

18 INVESTMENTS (CONTINUED)

(e) Debt securities at fair value through profit or loss

	Group		Bank	
	2006	2005	**2006**	2005
Issued by:				
Governments				
— in Mainland China	**486**	361	**486**	361
— outside Mainland China	**207**	234	**207**	234
The PBOC	**—**	49	**—**	49
Policy banks				
— in Mainland China	**116**	718	**116**	718
— outside Mainland China	**139**	142	**100**	142
Banks and non-bank financial institutions outside Mainland China	**3,253**	615	**1,229**	615
Public sector entities outside Mainland China	**—**	244	**—**	244
Others				
— in Mainland China (note)	**986**	—	**986**	—
— outside Mainland China	**429**	70	**330**	70
	5,616	2,433	**3,454**	2,433
Listed in Hong Kong	**227**	—	**150**	—
Listed outside Hong Kong	**1,691**	—	**1,361**	—
Unlisted	**3,698**	2,433	**1,943**	2,433
Total	**5,616**	2,433	**3,454**	2,433

Note: Others in Mainland China as at 31 December 2006 represent debt securities issued by state-owned enterprises and joint-stock enterprises of RMB799 million (2005: Nil) and RMB187 million (2005: Nil) respectively.

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19 INVESTMENTS IN SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. Unless otherwise stated, the class of all shares held is ordinary. All of these companies are subsidiaries as defined under Note 1(c) and have been included in the scope of the consolidated financial statements of the Group.

Name of company	Place of incorporation and operation	Particulars of the issued and paid up capital	% of ownership directly held by the Bank	% of ownership indirectly held by the Bank	Principal activities
China Construction Bank (Asia) Corporation Limited ("CCB Asia") (formerly known as Bank of America (Asia) Limited)	Hong Kong	7.8 million shares of HK$40 each	—	100%	Commercial banking and related financial services
China Construction Bank (Asia) Limited	Hong Kong	300 million shares of HK$ 1 each	100%	—	Commercial banking and related financial services
Sino-German Bausparkasse Corporation Limited	PRC, limited liability company	150 million shares of RMB1 each	75.1%	—	Home mortgage loan and deposit taking business
CCB Principal Asset Management Co., Ltd. ("CCB Principal")	PRC, limited liability company	200 million shares of RMB1 each	65%	—	Fund management services

20 INTEREST IN ASSOCIATE

The Group's interest in its associate which is unlisted, is as follows:

Name of Company	Place of incorporation	Particulars of issued and paid up capital	% of ownership indirectly held by the Bank	Principal activity
QBE Hongkong and Shanghai Insurance Company, Limited	Hong Kong	19.9 million ordinary shares of HK$1 each	25.50%	Insurance

21 PROPERTY AND EQUIPMENT

(a) Group

	Bank premises (Note 21(c))	Construction in progress	Computer equipment	Others	Total
Cost or deemed cost:					
As at 1 January 2006	**38,987**	**2,344**	**11,369**	**6,324**	**59,024**
Additions	**1,162**	**1,761**	**3,787**	**2,809**	**9,519**
Disposals	**(348)**	**(77)**	**(841)**	**(1,160)**	**(2,426)**
Additions through acquisition of subsidiary	**44**	**—**	**85**	**73**	**202**
Transfers	**1,667**	**(2,480)**	**229**	**584**	**—**
As at 31 December 2006	**41,512**	**1,548**	**14,629**	**8,630**	**66,319**
Accumulated depreciation and impairment losses:					
As at 1 January 2006	**(3,658)**	**(49)**	**(4,707)**	**(649)**	**(9,063)**
Depreciation charges	**(1,608)**	**—**	**(2,581)**	**(1,809)**	**(5,998)**
Impairment losses	**(28)**	**(13)**	**—**	**(1)**	**(42)**
Disposals	**110**	**57**	**810**	**997**	**1,974**
Additions through acquisition of subsidiary	**(20)**	**—**	**(76)**	**(57)**	**(153)**
As at 31 December 2006	**(5,204)**	**(5)**	**(6,554)**	**(1,519)**	**(13,282)**
Net carrying value:					
As at 31 December 2006	**36,308**	**1,543**	**8,075**	**7,111**	**53,037**
Cost or deemed cost:					
As at 1 January 2005	38,352	764	9,576	5,000	53,692
Additions	1,103	2,225	2,434	2,593	8,355
Disposals	(701)	(2)	(705)	(1,615)	(3,023)
Transfers	233	(643)	64	346	—
As at 31 December 2005	38,987	2,344	11,369	6,324	59,024
Accumulated depreciation and impairment losses:					
As at 1 January 2005	(2,024)	—	(2,947)	(277)	(5,248)
Depreciation charges	(1,624)	—	(2,434)	(1,585)	(5,643)
Impairment losses	(234)	(50)	(4)	(5)	(293)
Disposals	224	1	678	1,218	2,121
As at 31 December 2005	(3,658)	(49)	(4,707)	(649)	(9,063)
Net carrying value:					
As at 31 December 2005	35,329	2,295	6,662	5,675	49,961

Note: As at 31 December 2006, ownership documentation for the Group's bank premises with a net carrying value of RMB3,442 million (2005: RMB1,152 million) was being finalised.

For the year ended 31 December 2006 (Expressed in millions of Renminbi unless otherwise stated)

21 PROPERTY AND EQUIPMENT (CONTINUED)

(b) Bank

	Bank premises (Note 21(c))	Construction in progress	Computer equipment	Others	Total
Cost or deemed cost:					
As at 1 January 2006	**38,919**	**2,344**	**11,363**	**6,316**	**58,942**
Additions	**1,161**	**1,761**	**3,769**	**2,788**	**9,479**
Disposals	**(346)**	**(77)**	**(841)**	**(1,160)**	**(2,424)**
Transfers	**1,667**	**(2,480)**	**229**	**584**	**—**
As at 31 December 2006	**41,401**	**1,548**	**14,520**	**8,528**	**65,997**
Accumulated depreciation and impairment losses:					
As at 1 January 2006	**(3,658)**	**(49)**	**(4,704)**	**(647)**	**(9,058)**
Depreciation charges	**(1,608)**	**—**	**(2,578)**	**(1,802)**	**(5,988)**
Impairment losses	**(27)**	**(13)**	**—**	**(1)**	**(41)**
Disposals	**110**	**57**	**810**	**997**	**1,974**
As at 31 December 2006	**(5,183)**	**(5)**	**(6,472)**	**(1,453)**	**(13,113)**
Net carrying value:					
As at 31 December 2006	**36,218**	**1,543**	**8,048**	**7,075**	**52,884**
Cost or deemed cost:					
As at 1 January 2005	38,292	764	9,570	4,992	53,618
Additions	1,095	2,225	2,433	2,588	8,341
Disposals	(701)	(2)	(704)	(1,610)	(3,017)
Transfers	233	(643)	64	346	—
As at 31 December 2005	38,919	2,344	11,363	6,316	58,942
Accumulated depreciation and impairment losses:					
As at 1 January 2005	(2,024)	—	(2,944)	(273)	(5,241)
Depreciation charges	(1,621)	—	(2,433)	(1,583)	(5,637)
Impairment losses	(234)	(50)	(4)	(5)	(293)
Disposals	221	1	677	1,214	2,113
As at 31 December 2005	(3,658)	(49)	(4,704)	(647)	(9,058)
Net carrying value:					
As at 31 December 2005	35,261	2,295	6,659	5,669	49,884

Note: As at 31 December 2006, ownership documentation for the Bank's bank premises with a net carrying value of RMB3,442 million (2005: RMB1,152 million) was being finalised.

21 PROPERTY AND EQUIPMENT (CONTINUED)

(c) Analysed by remaining term of leases

The net carrying values of bank premises of the Group and the Bank at the balance sheet date are analysed by the remaining terms of the leases as follows:

	Group		Bank	
	2006	2005	**2006**	2005
Long term leases (over 50 years), held in Hong Kong	**123**	102	**51**	53
Medium term leases (10–50 years), held in Mainland China	**35,942**	35,012	**35,924**	34,993
Short term leases (less than 10 years), held in Mainland China	**243**	215	**243**	215
Total	**36,308**	35,329	**36,218**	35,261

22 GOODWILL

	Group
	2006
Cost:	
Addition through acquisition of a subsidiary and balance as at 31 December (note 32(c)(iii))	**1,743**

Impairment test for cash-generating unit containing goodwill

Goodwill is allocated to the Group's cash-generating unit ("CGU"), the Hong Kong subsidiary acquired on 29 December 2006.

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial forecasts approved by management covering a ten-year period. Cash flows beyond the ten-year period are extrapolated using the estimate rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

Key assumptions used for value-in-use calculations:

	2006
	%
Growth rate after the ten-year period	**5.0**
Discount rate	**9.0**

The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used reflect specific risks relating to the relevant segments.

For the year ended 31 December 2006 (Expressed in millions of Renminbi unless otherwise stated)

23 DEFERRED TAX

(a) Analysed by nature

	Group		Bank	
	2006	2005	**2006**	2005
Deferred tax assets	**2,701**	420	**2,682**	420
Deferred tax liabilities	**(25)**	—	**(25)**	—
Net balance	**2,676**	420	**2,657**	420

(b) Movements of deferred tax

Group

The components of deferred tax assets/(liabilities) recognised in the consolidated balance sheet and the movements during the year are as follows:

	In Mainland China				Outside Mainland China		
	Interest recognition for short-term debt securities	Deferral or amortisation of subordinated bonds issue costs	Fair value adjustments for securities (note (i))	Allowances for loans and advances to customers	Fair value adjustments for securities (note (i))	Others	Deferred tax assets/ (liabilities)
As at 1 January 2006	**—**	**(31)**	**444**	**—**	**7**	**—**	**420**
Recognised in income statement	**—**	**4**	**—**	**2,064**	**—**	**—**	**2,068**
Recognised in equity	**—**	**—**	**201**	**—**	**(32)**	**—**	**169**
Addition through acquisition of subsidiary	**—**	**—**	**—**	**—**	**—**	**19**	**19**
As at 31 December 2006	**—**	**(27)**	**645**	**2,064**	**(25)**	**19**	**2,676**
As at 1 January 2005	(522)	(35)	231	—	(62)	—	(388)
Recognised in income statement	522	4	(55)	—	26	—	497
Recognised in equity	—	—	268	—	43	—	311
As at 31 December 2005	—	(31)	444	—	7	—	420

23 DEFERRED TAX (CONTINUED)

(b) Movements of deferred tax (Continued)

Bank

The components of deferred tax assets/(liabilities) recognised in the balance sheet and the movements during the year are as follows:

	In Mainland China				Outside Mainland China	
	Interest recognition for short-term debt securities	Deferral or amortisation of subordinated bonds issue costs	Fair value adjustments for securities (note (i))	Allowances for loans and advances to customers	Fair value adjustments for securities (note (i))	Deferred tax assets/ (liabilities)
As at 1 January 2006	**—**	**(31)**	**444**	**—**	**7**	**420**
Recognised in income statement	**—**	**4**	**—**	**2,064**	**—**	**2,068**
Recognised in equity	**—**	**—**	**201**	**—**	**(32)**	**169**
Addition through acquisition of subsidiary	**—**	**—**	**—**	**—**	**—**	**—**
As at 31 December 2006	**—**	**(27)**	**645**	**2,064**	**(25)**	**2,657**
As at 1 January 2005	(522)	(35)	231	—	(62)	(388)
Recognised in income statement	522	4	(55)	—	26	497
Recognised in equity	—	—	268	—	43	311
As at 31 December 2005	—	(31)	444	—	7	420

Notes:

(i) Unrealised gains or losses arising from fair value adjustments for securities at fair value through profit or loss and derivatives are taxed when recognised. Fair value adjustments for available-for-sale securities are subject to tax when realised.

(ii) The Group and the Bank did not have significant unrecognised deferred taxation arising at the balance sheet date.

For the year ended 31 December 2006 (Expressed in millions of Renminbi unless otherwise stated)

24 OTHER ASSETS

	Group		Bank	
	2006	2005	**2006**	2005
Interest receivable				
— debt securities	**15,193**	11,695	**15,170**	11,695
— loans and advances to customers	**5,509**	4,294	**5,421**	4,294
— others	**590**	1,080	**557**	1,080
	21,292	17,069	**21,148**	17,069
Land use rights	**18,064**	18,449	**18,064**	18,449
Positive fair value of derivatives (note and Note 37(f))	**14,514**	12,146	**14,286**	12,146
Repossessed assets	**1,453**	1,877	**1,408**	1,877
Intangible assets	**1,131**	978	**1,127**	978
Others	**7,247**	5,414	**6,830**	5,254
Total	**63,701**	55,933	**62,863**	55,773

Note: Positive fair value of derivatives

The balance as at 31 December 2006 includes the fair value of the foreign exchange option, amounting to RMB12,058 million (2005: RMB9,545 million), which was purchased to hedge the currency risk arising from the separately managed US dollar denominated investment portfolio (Note 37(d)).

The premium payable in respect of the purchase of above option is stated at a discounted value of RMB5,496 million (2005: RMB5,348 million) and is included under other liabilities and provisions (Note 27).

25 AMOUNTS DUE TO BANKS AND NON-BANK FINANCIAL INSTITUTIONS

(a) Analysed by nature

	Group		Bank	
	2006	2005	**2006**	2005
Balances under repurchase agreements	**3,905**	21,189	**3,905**	21,189
Money market takings	**25,548**	17,540	**25,459**	17,324
Deposits	**214,515**	125,795	**214,429**	125,795
Total	**243,968**	164,524	**243,793**	164,308

25 AMOUNTS DUE TO BANKS AND NON-BANK FINANCIAL INSTITUTIONS (CONTINUED)

(b) Analysed by geographical location

	Group		Bank	
	2006	2005	**2006**	2005
Balances payable on demand				
— Banks in Mainland China	**11,854**	6,591	**11,854**	6,591
— Non-bank financial institutions in Mainland China	**190,533**	78,726	**190,533**	78,726
	202,387	85,317	**202,387**	85,317
— Banks outside Mainland China	**128**	322	**42**	322
— Non-bank financial institutions outside Mainland China	**53**	—	**53**	—
	181	322	**95**	322
Term deposits				
— Banks in Mainland China	**13,993**	10,849	**13,993**	10,849
— Non-bank financial institutions in Mainland China	**6,819**	33,922	**6,819**	33,922
	20,812	44,771	**20,812**	44,771
— Banks outside Mainland China	**14,677**	20,612	**14,604**	20,410
— Non-bank financial institutions outside Mainland China	**5,911**	13,502	**5,895**	13,488
	20,588	34,114	**20,499**	33,898
Total	**243,968**	164,524	**243,793**	164,308

(c) Analysed by legal form of counterparty

	Group		Bank	
	2006	2005	**2006**	2005
Balances with				
— PRC policy banks	**89**	137	**89**	137
— PRC state-owned banks and non-bank financial institutions	**30,995**	106,219	**30,995**	106,219
— PRC joint-stock banks and non-bank financial institutions	**175,109**	19,389	**175,109**	19,389
— Foreign-invested banks and non-bank financial institutions	**37,775**	38,779	**37,600**	38,563
Total	**243,968**	164,524	**243,793**	164,308

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26 DEPOSITS FROM CUSTOMERS

(a) Analysed by nature

	Group		Bank	
	2006	2005	**2006**	2005
Demand deposits				
— Corporate customers	**1,781,875**	1,475,119	**1,779,362**	1,475,038
— Personal customers	**834,809**	709,026	**830,618**	708,705
	2,616,684	2,184,145	**2,609,980**	2,183,743
Time deposits				
— Corporate customers	**715,743**	632,350	**706,115**	631,057
— Personal customers	**1,388,829**	1,189,551	**1,376,748**	1,189,428
	2,104,572	1,821,901	**2,082,863**	1,820,485
Total	**4,721,256**	4,006,046	**4,692,843**	4,004,228

(b) Analysed by geographical segments

	Group		Bank	
	2006	2005	**2006**	2005
Yangtze River Delta	**984,000**	828,647	**984,000**	828,647
Pearl River Delta	**735,391**	620,375	**735,391**	620,375
Bohai Rim	**924,942**	802,270	**924,578**	801,973
Central	**810,662**	687,258	**810,662**	687,258
Western	**776,246**	671,263	**776,246**	671,263
Northeastern	**369,657**	322,758	**369,657**	322,758
Head office	**72,828**	58,897	**72,828**	58,897
Outside Mainland China	**47,530**	14,578	**19,481**	13,057
Total	**4,721,256**	4,006,046	**4,692,843**	4,004,228

The definitions of geographical segments are set out in Note 36(b).

27 OTHER LIABILITIES AND PROVISIONS

	Group		Bank	
	2006	2005	**2006**	2005
Interest payable				
— deposits from customers	**33,293**	25,205	**33,217**	25,205
— others	**1,012**	927	**983**	927
	34,305	26,132	**34,200**	26,132
Salaries and welfare payables (Note 27(a))	**10,373**	9,505	**10,230**	9,505
Supplementary retirement benefit obligations (Note 28(b))	**5,889**	5,621	**5,889**	5,621
Foreign exchange option premium payable (Notes 24 and 37(d))	**5,496**	5,348	**5,496**	5,348
Payables to Jianyin (Notes 27(b) and 39(a))	**5,320**	5,211	**5,320**	5,211
Dormant accounts	**4,571**	2,860	**4,571**	2,860
Business tax and other tax payables	**4,076**	3,451	**4,074**	3,451
Negative fair value of derivatives (Note 37(f))	**2,715**	2,490	**2,522**	2,490
Bond redemption payable	**2,701**	2,063	**2,701**	2,063
Litigation provisions (Note 27(c))	**1,637**	1,802	**1,637**	1,802
Payment and collection clearance account	**1,462**	1,333	**1,462**	1,333
Settlement accounts	**1,285**	897	**1,285**	897
Dividend payable (Note 31(b))	**—**	3,268	**—**	3,268
Others	**7,201**	6,509	**5,990**	6,389
Total	**87,031**	76,490	**85,377**	76,370

(a) Salaries and welfare payables

The payables to defined contribution retirement schemes included under salaries and welfare payables at the balance sheet date are as follows:

	Group and Bank	
	2006	2005
Payables to defined contribution retirement schemes	**1,591**	1,082

(b) Payables to Jianyin

The balance as at 31 December 2006 included a payable of RMB5,307 million (2005: RMB5,211 million) to China Jianyin Investment Limited ("Jianyin"), arising from the receipt of a bill issued by the PBOC with a nominal value of RMB21,000 million (Note 18(a)), which exceeded net advances made by CCB for the liquidation of a trust and investment company, plus the interest accrual on such excess portion.

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27 OTHER LIABILITIES AND PROVISIONS (CONTINUED)

(c) Litigation provisions

	Group and Bank	
	2006	2005
As at 1 January	**1,802**	2,107
Charge for the year	**230**	5
Payments made	**(395)**	(310)
As at 31 December	**1,637**	1,802

28 RETIREMENT BENEFITS

(a) Statutory retirement schemes

In accordance with the labour regulations of the PRC, the Group participates in various defined contribution retirement schemes organised by the municipal and provincial governments for its employees in Mainland China. The Group is required to make contributions to a separate entity which could be the government or publicly administered retirement schemes at certain rates of the salaries, bonuses and certain allowances of its employees. A member of the schemes is entitled to a pension equal to a fixed proportion of the salary prevailing at his or her retirement date.

For its employees outside Mainland China, the Group participates in various defined contribution retirement schemes at funding rates determined in accordance with the local practices and regulations.

The Group has no other material obligations for the payment of its employees' retirement and other post retirement benefits other than the contributions described above and in Note 28(b) below.

(b) Supplementary retirement benefits

The Group pays supplementary retirement benefits for its employees in Mainland China who retired on or before 31 December 2003 ("Eligible Employees"). The amounts recognised in the balance sheet represent the present value of unfunded obligations.

The Group's obligations in respect of the supplementary retirement benefits at the balance sheet date were reviewed by an independent actuary, Towers, Perrin, Forster & Crosby, Inc., Hong Kong, whose actuaries are members of the Society of Actuaries of the United States of America, using the projected unit credit actuarial cost method.

Net liabilities recognised in the balance sheets of the Group and the Bank represent:

	2006	2005
Present value of the obligations	**6,194**	5,758
Unrecognised actuarial losses	**(305)**	(137)
As at 31 December	**5,889**	5,621

28 RETIREMENT BENEFITS (CONTINUED)

(b) Supplementary retirement benefits (Continued)

Movements in the net liabilities recognised in the balance sheets of the Group and the Bank are as follows:

	2006	2005
As at 1 January	**5,621**	5,743
Payments made	**(386)**	(361)
Expense recognised as staff costs in the income statement		
— interest cost	**195**	239
— past service costs (note)	**459**	—
As at 31 December	**5,889**	5,621

Note: The Bank increased the retirement benefits payable to Eligible Employees in 2006. The adjustment of pension benefits resulted in the increase in the present value of supplementary retirement benefit obligations by RMB459 million as at 31 December 2006.

Principal actuarial assumptions at the balance sheet date are as follows:

	2006	2005
Discount rate	**3.25%**	3.50%
Health care cost increases	**7.00%**	7.00%
Average expected future lifetime of Eligible Employees	**14.5 years**	15.1 years

29 SUBORDINATED BONDS ISSUED

The carrying value of the Group's subordinated bonds issued upon the approval of the PBOC and the CBRC is as follows:

		Group and Bank	
	Note	2006	2005
4.87% subordinated fixed rate bonds maturing in August 2014	(i)	**11,140**	11,140
Subordinated floating rate bonds maturing in August 2014	(ii)	**3,860**	3,860
4.95% subordinated fixed rate bonds maturing in September 2014	(iii)	**8,300**	8,300
Subordinated floating rate bonds maturing in December 2014	(iv)	**6,078**	6,078
4.95% subordinated fixed rate bonds maturing in December 2014	(v)	**10,622**	10,622
Total nominal value		**40,000**	40,000
Less: Unamortised issuance cost		**(83)**	(93)
Net carrying value		**39,917**	39,907

For the year ended 31 December 2006 (Expressed in millions of Renminbi unless otherwise stated)

29 SUBORDINATED BONDS ISSUED (CONTINUED)

Notes:

(i) The interest rate per annum on the subordinated fixed rate bonds is 4.87%. The Group has an option to redeem the bonds on 1 August 2009. If they are not redeemed early, the interest rate of the bonds will increase in August 2009 to 7.67% per annum for the next five years.

(ii) The interest rate per annum on the subordinated floating rate bonds is the PBOC one-year fixed deposit rate, which is reset annually, plus an interest margin of 2.00%. The Group has an option to redeem the bonds on 1 August 2009. If they are not redeemed early, the interest margin of the bonds will increase to 2.75% from August 2009 for the next five years.

(iii) The interest rate per annum on the subordinated fixed rate bonds is 4.95%. The Group has an option to redeem the bonds on 22 September 2009. If the bonds are not redeemed by the Group on 22 September 2009, the interest rate will increase to 7.95% per annum for the next five years.

(iv) The interest rate per annum on the subordinated floating rate bonds is the weighted 7-day repo rate quoted in the PRC interbank money market plus an interest margin of 2.00%. It is reset every six months. The Group has an option to redeem the bonds on 27 December 2009. If they are not redeemed early, the interest margin will increase to 3.00% from December 2009 for the next five years.

(v) The interest rate per annum on the subordinated fixed rate bonds is 4.95%. The Group has an option to redeem the bonds on 27 December 2009. If the bonds are not redeemed by the Group on 27 December 2009, the interest rate will increase to 7.95% per annum for the next five years.

30 EQUITY

(a) Share capital

	2006		2005	
	No. of shares	**Amount**	No. of shares	Amount
Registered, issued and fully paid:				
Ordinary shares of RMB1 each:				
As at 1 January	**224,689**	**224,689**	194,230	194,230
Shares issued	**—**	**—**	30,459	30,459
As at 31 December	**224,689**	**224,689**	224,689	224,689

On 17 September 2004, the Bank was incorporated with a registered and paid-up capital of RMB194,230 million divided into 194,230 million shares with a par value of RMB1 each. These shares are collectively referred to as Original Unlisted Shares.

Upon completion of the IPO on 27 October 2005, all the Original Unlisted Shares were converted into H shares which are listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "SEHK").

On 27 October 2005, a total of 26,486 million H shares with a par value of RMB1 each were issued by the Bank at a subscription price of HK$ 2.35 per share as part of the Initial Public Offering in 2005.

On 14 November 2005, a total of 3,973 million H shares with a par value of RMB1 each were issued by the Bank at a subscription price of HK$ 2.35 per share as a result of the exercise of the over-allotment option.

All H shares are ordinary shares and rank pari passu with the same rights and benefits.

30 EQUITY (CONTINUED)

(b) Capital reserve

The capital reserve generally records transactions of the following nature:

(i) share premium arising from the issuance of shares at prices in excess of their par value; and

(ii) any other item required by PRC regulations to be so treated.

Capital reserve may be used for increasing paid-in capital as approved by the shareholders.

	2005
Gross proceeds upon issue of shares	74,639
Shares at par value	(30,459)
Share premium before costs of issuing shares	44,180
Costs of issuing shares	(2,089)
Share premium recognised in capital reserve	42,091

As described in Note 30(a), the Bank issued a total of 30,459 million ordinary shares of RMB1 each at a total consideration of RMB74,639 million in 2005. After accounting for interest income and costs directly associated with the share issues, the Bank credited the share premium of RMB42,091 million to the capital reserve.

(c) Surplus reserves

Prior to 1 January 2006, surplus reserves consist of statutory surplus reserve fund, discretionary surplus reserve fund and statutory public welfare fund. In accordance with the Company Law of the PRC (Revised in 2005), which was issued on 27 October 2005, the Bank is no longer required to make further appropriation to the statutory public welfare fund with effect from 1 January 2006.

In 2006, the Bank transferred the balance of the statutory public welfare fund of RMB2,167 million as at 31 December 2005 to the statutory surplus reserve fund in accordance with a notice, Cai Qi [2006] No.67, issued by the MOF on 15 March 2006.

The Bank is required to appropriate 10% of its net profit, as determined under the Accounting Standards for Business Enterprises, the *Accounting Regulations for Financial Enterprises* (2001) and other relevant regulations issued by the MOF (collectively "PRC GAAP"), to the statutory surplus reserve fund until the reserve balance reaches 50% of the registered capital. After making the appropriation to the statutory surplus reserve fund, the Bank may also appropriate its net profit to the discretionary surplus reserve fund upon approval by shareholders in general meeting.

Subject to the approval of shareholders, statutory and discretionary surplus reserve funds may be used to make good prior year losses, if any, and may be converted into capital, provided that the balance of statutory surplus reserve fund after such capitalisation is not less than 25% of the registered capital before such capitalisation.

(d) Investment revaluation reserve

The investment revaluation reserve has been accounted for in accordance with the accounting policies adopted for the measurement of the available-for-sale investments at fair value.

For the year ended 31 December 2006 (Expressed in millions of Renminbi unless otherwise stated)

30 EQUITY (CONTINUED)

(e) General reserve

The general reserve of the Group and the Bank at 31 December 2006 comprises:

	Group		Bank	
	2006	2005	**2006**	2005
Set up under the MOF's requirements (note (i))	**10,284**	10,284	**10,284**	10,284
Set up under requirements of the Hong Kong Banking Ordinance (note (ii))	**56**	48	**56**	48
Set up under requirements of the China Securities Regulatory Commission (note (iii))	**2**	—	**—**	—
Set up under requirements of overseas regulatory body	**1**	—	**1**	—
	10,343	10,332	**10,341**	10,332

Notes:

(i) Pursuant to a notice, Cai Jin [2005] No. 49, issued by the MOF on 17 May 2005 and which became effective on 1 July 2005, banks and certain non-bank financial institutions in Mainland China, are required to set aside a general reserve (in addition to allowances for impairment losses) to cover potential losses against their assets. The general reserve is in principle not less than 1% of the aggregate amount of risk-bearing assets, before allowances for impairment losses, at the balance sheet date. The general reserve forms part of the equity of the financial institution, and transfers to it are made through appropriations of profit after tax.

The MOF issued another notice, Cai Jin [2005] No. 90 on 5 September 2005. This notice requires financial institutions to set aside the required general reserve within a transitional period of approximately three years, but not more than five years, from 1 July 2005.

Management consider that the Bank will comply with the requirements of these notices before 30 June 2010.

(ii) Paragraph 9 of the Seventh Schedule to the Hong Kong Banking Ordinance requires the Group's banking operations in Hong Kong to set aside amounts in a regulatory reserve in respect of losses which it will, or may, incur on loans and advances to customers, in addition to impairment losses recognised in accordance with the accounting policies of the Group. Transfers to and from the regulatory reserve are made directly through retained earnings.

(iii) Pursuant to China Securities Regulatory Commissions [2006] No. 154 issued on 14 August 2006, fund management companies are required to set aside their profit to general reserve at an amount not less than 5% of the management fee. No further appropriation to the general reserve is required when the amount of the reserve equals to 1% of the net assets value of the funds under management. The general reserve forms part of the equity of the financial institution, and transfers to it are made through appropriations of profit after tax.

30 EQUITY (CONTINUED)

(f) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of overseas operations.

(g) Distributability of reserves

At 31 December 2006, the aggregate amount of reserves available for distribution to shareholders of the Bank was RMB42,708 million (2005: RMB4,607 million).

(h) Profit attributable to shareholders of the Bank

The consolidated profit attributable to shareholders of the Bank includes a profit of RMB46,112 million (2005: RMB46,957 million) which has been dealt with in the financial statements of the Bank.

31 PROFIT DISTRIBUTIONS

(a) Profit appropriations and distributions other than dividends declared during the year

	Group		Bank	
	2006	2005	**2006**	2005
Appropriations to				
— Statutory surplus reserve fund	**4,632**	3,991	**4,632**	3,991
— Statutory public welfare fund	**—**	1,996	**—**	1,996
— General reserve	**11**	10,332	**9**	10,332
Profit distribution for settlement of government receivable	**—**	23,781	**—**	23,781
	4,643	40,100	**4,641**	40,100

(b) Dividends payable to equity shareholders of the Bank attributable to the year

	Group and Bank	
	2006	2005
Interim dividend declared during the year (note (i))	**—**	168
Special dividend declared and paid (note (ii))	**—**	3,100
Final cash dividend proposed after the balance sheet date of RMB0.092 per ordinary share (2005: RMB0.015 per ordinary share) (note (iii))	**20,671**	3,370
	20,671	6,638

For the year ended 31 December 2006 (Expressed in millions of Renminbi unless otherwise stated)

31 PROFIT DISTRIBUTIONS (CONTINUED)

(b) Dividends payable to equity shareholders of the Bank attributable to the year (Continued)

Notes:

(i) In the year 2005, the Bank appropriated 65% of its retained earnings of RMB480 million, which is determined under PRC GAAP, as at 30 June 2005 to the general reserve. The remaining 35% of the retained earnings, or RMB168 million, were distributed to the five promoters in the form of cash dividend.

(ii) In the year 2005, RMB3,100 million of the profit after tax for the period from and including 1 July 2005 to 26 October 2005, being the date immediately preceding the first date when the Bank's shares were listed (the "listing date"), was distributed in the form of cash dividend to those shareholders immediately preceding the listing date.

(iii) 45% of the profit after tax for the year ended 31 December 2006, as determined under PRC GAAP or IFRS, whichever is lower, will be distributed in the form of cash dividend to the Bank's shareholders as at the relevant record date.

On 13 April 2007, the Directors proposed a final cash dividend of RMB0.092 per share in respect of the year ended 31 December 2006. Subject to the agreement of the shareholders in the Annual General Meeting to be held on 13 June 2007, the total amount of approximately RMB20,671 million is payable to those on the register of shareholders as at 21 May 2007. This dividend has not been recognised as liability at the balance sheet date.

(c) Dividends payable to equity shareholders of the Bank attributable to the previous year, approved and paid during the year

	Group and Bank	
	2006	2005
Final cash dividend RMB0.015 per ordinary share (2005: Nil)	**3,370**	—

32 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Cash and cash equivalents

	2006	2005
Cash	**30,191**	28,413
Surplus deposit reserve	**103,767**	108,395
Amounts due from banks and non-bank financial institutions	**82,185**	190,108
Less:		
— amounts due over three months when acquired	**(15,376)**	(32,362)
— balances under resale agreements	**(33,278)**	(13,797)
	33,531	143,949
Total	**167,489**	280,757

(b) Significant non-cash transactions

As approved by the shareholders in the general meeting on 6 June 2005, the Bank settled the government receivable of RMB23,781 million by the Bank's profit distribution during the six months ended 30 June 2005.

(c) Investment in new subsidiaries

(i) CCB Principal was established by the Bank, Principal Financial Services, Inc and China Huadian Group Corporation in 2005. On 19 September 2005 the Bank and the above two shareholders of CCB Principal paid cash of RMB130 million and RMB70 million as the initial capital of CCB Principal respectively. The Bank owns 65% of CCB Principal's registered capital at 31 December 2005 and 2006.

(ii) On 24 August 2006, the board of directors approved the acquisition of the entire issued share capital of Bank of America (Asia) Limited ("BOAA") from Bank of America Corporation, a shareholder of the Bank, for a consideration of HK$9,710 million. The aforesaid consideration represented approximately 1.32 times the net assets of BOAA as at 31 December 2005 of HK$7,382 million. The acquisition was completed on 29 December 2006 and BOAA was renamed as China Construction Bank (Asia) Corporation Limited ("CCB Asia"). CCB Asia is a licensed bank incorporated in Hong Kong and provides a broad range of personal and commercial banking related products and services.

For the year ended 31 December 2006, CCB Asia had no contribution to the net profit of the Group. If the acquisition had occurred on 1 January 2006, the Group's operating income would have been RMB152,914 million and net profit would have been RMB46,960 million in 2006.

For the year ended 31 December 2006 (Expressed in millions of Renminbi unless otherwise stated)

32 NOTES TO CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

(c) Investment in new subsidiaries (Continued)

(iii) Effect of acquisition

The acquisition had the following effect on the Group's assets and liabilities.

Acquiree's net assets at the acquisition date

	Note	Recognised values	Fair value adjustments	Carrying amounts
Cash and balances with central banks		**83**	**—**	**83**
Amounts due from banks and other non-bank financial institutions		**6,058**	**—**	**6,058**
Loans and advances to customers		**26,570**	**—**	**26,570**
Investments		**3,481**	**—**	**3,481**
Interest in associate		**103**	**—**	**103**
Property and equipment		**49**	**—**	**49**
Deferred tax assets		**22**	**—**	**22**
Other assets		**728**	**—**	**728**
Amounts due to banks and other non-bank financial institutions		**(160)**	**—**	**(160)**
Deposits from customers		**(26,271)**	**—**	**(26,271)**
Certificates of deposit issued		**(1,001)**	**(4)**	**(1,005)**
Other liabilities and provisions		**(1,594)**	**—**	**(1,594)**
Net identifiable assets		**8,068**	**(4)**	**8,064**
Goodwill on acquisition	22	**1,743**		
Consideration paid, satisfied in cash		**9,811**		
Cash and cash equivalents acquired		**(5,906)**		
Net cash outflow		**3,905**		

33 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Credit commitments

At any given time the Group has outstanding commitments to extend credit. These commitments take the form of approved loans and credit card limits.

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties.

Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

The contractual amounts of commitments and contingent liabilities are set out in the following table by categories. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represents the maximum potential loss that would be recognised at the balance sheet date if counterparties failed completely to perform as contracted.

	Group		Bank	
	2006	2005	**2006**	2005
Contractual amount				
Loan commitments				
— with an original maturity under one year	**28,370**	16,961	**25,495**	16,080
— with an original maturity of one year or over	**209,167**	144,871	**209,115**	144,852
	237,537	161,832	**234,610**	160,932
Guarantees and letters of credit	**250,944**	183,638	**249,762**	183,503
Acceptances	**112,678**	138,826	**112,615**	138,737
Credit card commitments	**53,810**	37,421	**53,810**	37,421
Others	**6,306**	20,429	**6,306**	20,429
	661,275	542,146	**657,103**	541,022

These commitments and contingent liabilities have off-balance sheet credit risk. Before the commitments are fulfilled or expire, management assess and make allowances for any probable losses accordingly. As the facilities may expire without being drawn upon, the total of the contractual amounts is not representative of expected future cash outflows.

	Group		Bank	
	2006	2005	**2006**	2005
Credit risk weighted amount of contingent liabilities and commitments	**303,508**	242,057	**302,471**	242,057

The credit risk weighted amount refers to the amount as computed in accordance with the rules set out by the CBRC and depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% of contingent liabilities and commitments.

The credit risk weighted amounts stated above have taken into account the effects of bilateral netting arrangements.

For the year ended 31 December 2006 (Expressed in millions of Renminbi unless otherwise stated)

33 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

(b) Capital commitments

The Group and the Bank had the following authorised capital commitments in respect of purchase of property and equipment at the balance sheet date:

	Group		Bank	
	2006	2005	**2006**	2005
Purchase of property and equipment				
— contracted for	**1,978**	296	**1,972**	296
— not contracted for	**982**	967	**963**	967
Total	**2,960**	1,263	**2,935**	1,263

(c) Operating lease commitments

The Group and the Bank leases certain properties under operating leases, which typically run for an initial period of one to five years and may include an option to renew the lease when all terms are renegotiated. At the balance sheet date, the future minimum lease payments under non-cancellable operating leases for premises were as follows:

	Group		Bank	
	2006	2005	**2006**	2005
Within one year	**1,710**	1,387	**1,592**	1,369
After one year but within five years	**3,511**	3,020	**3,272**	2,982
After five years	**1,463**	1,087	**1,218**	1,087
Total	**6,684**	5,494	**6,082**	5,438

(d) Outstanding litigation and disputes

As at 31 December 2006, the Group was the defendant in certain pending litigation and disputes with gross claims of RMB2,566 million (2005: RMB2,607 million). Provisions have been made for the estimated losses of such litigation based upon the opinions of the Group's internal and external legal counsel (Note 27(c)). The Group considers that the provisions made are reasonable and adequate.

33 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

(e) Underwriting obligations

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

	Group and Bank	
	2006	2005
Underwriting obligations	**1,540**	1,980

(f) Redemption obligations

As an underwriting agent of PRC government bonds, the Group has the responsibility to buy back those bonds sold by it should the holders decide to early redeem the bonds held. The redemption price for the bonds at any time before their maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interest payables to the bond holders are calculated in accordance with relevant rules of the MOF and the PBOC. The redemption price may be different from the fair value of similar instruments traded at the redemption date.

The redemption obligations below represent the nominal value of government bonds underwritten and sold by the Group and the Bank, but not yet matured at the balance sheet date:

	Group and Bank	
	2006	2005
Redemption obligations	**92,243**	102,079

The Group expects the amount of redemption before the maturity date of these government bonds through the Group will not be material.

(g) Provision against commitments and contingent liabilities

The Group has assessed and made provision for any probable outflow of economic benefits in relation to the above commitments and contingent liabilities in accordance with its accounting policies. Except for the provisions made against outstanding litigation and disputes (Note 27(c)), the Group has not made other provisions in respect of the above commitments and contingent liabilities at the balance sheet date.

For the year ended 31 December 2006 (Expressed in millions of Renminbi unless otherwise stated)

34 ASSETS PLEDGED AS SECURITY

The following debt securities have been pledged under repurchase agreements. The related secured liabilities are recorded as amounts due to central banks, or banks and non-bank financial institutions with similar carrying values at the balance sheet date.

	Group and Bank	
	2006	2005
Debt securities	**5,471**	20,882

35 TRANSACTIONS ON BEHALF OF CUSTOMERS

(a) Entrusted lending business

The Group provides entrusted lending business services to government agencies, business entities and individuals. All entrusted loans are made under the instruction or at the direction of these entities or individuals and are funded by entrusted funds from them.

For entrusted assets and liabilities and entrusted provident housing fund mortgage business, the Group generally does not take on credit risk in relation to these transactions. The Group acts as an agent to hold and manage these assets and liabilities at the direction of the entrustors and receives fee income for the services provided.

Trust assets are not assets of the Group and are not recognised in the balance sheet. Surplus funds are accounted for as deposits from customers. Income received and receivable for providing these services are included in the income statement as fee income.

At the balance sheet date, the entrusted assets and liabilities were as follows:

	Group and Bank	
	2006	2005
Entrusted loans	**319,266**	255,012
Entrusted funds	**319,266**	255,012

(b) Wealth management services

The Group's wealth management services to customers mainly represents sales of wealth management products to corporate and personal banking customers. The funds obtained from wealth management services are invested in investment products, including government bonds, PBOC bills, notes issued by policy banks, short-dated corporate notes, trust loans and IPO shares. The credit risk, liquidity risk and interest rate risk associated with these products are borne by the customers who invest in these products. The Group only earns commission which represents the charges on customers in relation to the provision of custody, sales and management services. The income is recognised in the income statement as commission income.

The wealth management products and funds obtained are not assets and liabilities of the Group and are not recognised in the balance sheets. The funds obtained from wealth management services that have not yet been invested are treated as payables to customers and recorded under "Other liabilities and provisions".

35 TRANSACTIONS ON BEHALF OF CUSTOMERS (CONTINUED)

(b) Wealth management services (Continued)

At the balance sheet date, the assets and liabilities under wealth management services were as follows:

	Group and Bank	
	2006	2005
Investments under wealth management services	**6,980**	1,748
Funds from wealth management services	**6,980**	1,748

36 SEGMENT REPORTING

The Group managed its business both by business segments and geographical segments. Accordingly, both business and geographical segment information is presented as the Group's primary segment reporting formats.

Measurement of segment assets and liabilities and segment income and results is based on the Group's accounting policies.

Transactions between segments are conducted under normal commercial terms and conditions. Internal charges and transfer pricing are determined with reference to market rates and have been reflected in the performance of each segment. Net interest income and expenses arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/expenses". Interest income and expenses earned from third parties are referred to as "external net interest income/expenses".

Segment revenues, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group entities within a single segment. Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year.

(a) Business segments

The Group comprises the following main business segments:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations, government agencies and financial institutions. The products and services include corporate loans, trade financing, deposit taking activities, agency services, consulting and advisory services, cash management services, remittance and settlement services, custody services and guarantee services.

Personal banking

This segment represents the provision of a range of financial products and services to individual customers. The products and services comprise personal loans, deposit taking activities, card business, personal wealth management services, remittance services and securities agency services.

Treasury business

This segment covers the Group's treasury operations. The treasury enters into inter-bank money market transactions and repurchase transactions, and invests in debt instruments. It also trades in debt instruments, derivatives and foreign currency for its own account. The treasury carries out customer driven derivatives, foreign currency and precious metal trading. Its function also includes the management of the Group's overall liquidity position, including the issuance of subordinated bonds.

Others and unallocated

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

For the year ended 31 December 2006 (Expressed in millions of Renminbi unless otherwise stated)

36 SEGMENT REPORTING (CONTINUED)

(a) Business segments (Continued)

	2006					
	Corporate banking	Personal banking	Treasury business	Others and unallocated	Elimination	Total
External net interest income/(expense)	100,286	(12,453)	51,555	980	—	140,368
Internal net interest (expense)/income	(22,253)	47,937	(24,477)	(1,207)	—	—
Net interest income/(expense)	78,033	35,484	27,078	(227)	—	140,368
Net fee and commission income	5,635	7,182	580	174	—	13,571
Dividend income	—	—	—	424	—	424
Net gain arising from dealing securities	—	—	264	355	—	619
Net gain arising from investment securities	—	—	234	778	—	1,012
Other operating income/(loss)	874	557	(6,193)	361	—	(4,401)
Operating income	84,542	43,223	21,963	1,865	—	151,593
Operating expenses						
— depreciation and amortisation	(3,000)	(3,465)	(463)	(66)	—	(6,994)
— others	(28,387)	(26,619)	(3,152)	(1,510)	—	(59,668)
	(31,387)	(30,084)	(3,615)	(1,576)	—	(66,662)
	53,155	13,139	18,348	289	—	84,931
Provisions for impairment losses	(16,513)	(2,484)	—	(217)	—	(19,214)
Profit before tax	36,642	10,655	18,348	72	—	65,717
Capital expenditure	2,399	3,903	359	3,680	—	10,341
Segment assets	2,499,153	621,550	2,199,334	158,036	(29,562)	5,448,511
Segment liabilities	2,450,821	2,503,048	46,481	147,519	(29,562)	5,118,307

36 SEGMENT REPORTING (CONTINUED)

(a) Business segments (Continued)

	2005					
	Corporate banking	Personal banking	Treasury business	Others and unallocated	Elimination	Total
External net interest income/(expense)	86,375	(7,342)	36,504	1,014	—	116,551
Internal net interest (expense)/income	(21,869)	36,875	(13,799)	(1,207)	—	—
Net interest income/(expense)	64,506	29,533	22,705	(193)	—	116,551
Net fee and commission income/ (expense)	3,176	4,133	1,154	(8)	—	8,455
Dividend income	—	—	—	546	—	546
Net gain arising from dealing securities	—	—	451	4	—	455
Net gain arising from investment securities	—	—	913	1,014	—	1,927
Other operating income/(loss)	751	147	(1,259)	1,141	—	780
Operating income	68,433	33,813	23,964	2,504	—	128,714
Operating expenses						
— depreciation and amortisation	(1,723)	(2,383)	(674)	(1,906)	—	(6,686)
— others	(19,245)	(18,109)	(4,009)	(10,043)	—	(51,406)
	(20,968)	(20,492)	(4,683)	(11,949)	—	(58,092)
	47,465	13,321	19,281	(9,445)	—	70,622
Provisions for impairment losses	(11,953)	(2,258)	(9)	(1,038)	—	(15,258)
Profit/(loss) before tax	35,512	11,063	19,272	(10,483)	—	55,364
Capital expenditure	1,503	3,544	206	3,511	—	8,764
Segment assets	2,240,910	493,493	1,664,996	215,578	(29,235)	4,585,742
Segment liabilities	2,041,994	2,105,639	73,935	105,732	(29,235)	4,298,065

36 SEGMENT REPORTING (CONTINUED)

(b) Geographical segments

The Group operates principally in Mainland China with branches located in 31 provinces, autonomous regions and municipalities directly under the central government, and two subsidiaries located in the Bohai Rim. The Group also has bank branch operations in Hong Kong, Singapore, Frankfurt, Johannesburg, Tokyo and Seoul, and subsidiaries operating in Hong Kong.

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

Geographical segments, as defined for management reporting purposes, are as follows:

— "Yangtze River Delta" refers to the following areas serviced by the tier-1 branches of the Group: Shanghai Municipality, Jiangsu Province, Zhejiang Province, City of Ningbo and City of Suzhou;

— "Pearl River Delta" refers to the following areas serviced by the tier-1 branches of the Group: Guangdong Province, City of Shenzhen, Fujian Province and City of Xiamen;

— "Bohai Rim" refers to the following areas serviced by the subsidiaries and tier-1 branches of the Group: Beijing Municipality, Shandong Province, Tianjin Municipality, Hebei Province and City of Qingdao;

— the "Central" region refers to the following areas serviced by the tier-1 branches of the Group: Shanxi Province, Guangxi Autonomous Region, Hubei Province, Henan Province, Hunan Province, Jiangxi Province, Hainan Province, Anhui Province and the Three Gorges Area;

— the "Western" region refers to the following areas serviced by the tier-1 branches of the Group: Sichuan Province, Chongqing Municipality, Guizhou Province, Yunnan Province, Tibet Autonomous Region, Inner Mongolia Autonomous Region, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region and Xinjiang Autonomous Region; and

— the "Northeastern" region refers to the following areas serviced by the tier-1 branches of the Group: Liaoning Province, Jilin Province, Heilongjiang Province and City of Dalian.

36 SEGMENT REPORTING (CONTINUED)

(b) Geographical segments (Continued)

	2006									
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central	Western	Northeastern	Head office	Outside Mainland China	Elimination	Total
External net interest income	24,651	10,619	14,997	14,546	14,996	4,196	54,532	1,831	—	140,368
Internal net interest income/ (expense)	6,282	7,274	9,218	6,585	6,233	3,723	(38,058)	(1,257)	—	—
Net interest income	30,933	17,893	24,215	21,131	21,229	7,919	16,474	574	—	140,368
Net fee and commission income	2,852	2,398	2,420	2,367	1,845	914	691	84	—	13,571
Dividend income	1	10	12	316	58	1	24	2	—	424
Net gain arising from dealing securities	37	35	11	4	10	8	159	355	—	619
Net gain/(loss) arising from investment securities	99	—	345	169	176	75	208	(60)	—	1,012
Other operating income/(loss)	352	176	237	252	566	95	(6,233)	154	—	(4,401)
Operating income	34,274	20,512	27,240	24,239	23,884	9,012	11,323	1,109	—	151,593
Operating expenses										
— depreciation and amortisation	(1,348)	(937)	(1,033)	(1,243)	(1,063)	(521)	(822)	(27)	—	(6,994)
— others	(11,742)	(8,194)	(9,878)	(10,796)	(10,351)	(4,740)	(3,538)	(429)	—	(59,668)
	(13,090)	(9,131)	(10,911)	(12,039)	(11,414)	(5,261)	(4,360)	(456)	—	(66,662)
	21,184	11,381	16,329	12,200	12,470	3,751	6,963	653	—	84,931
Provisions for impairment losses	(2,427)	(1,914)	(7,183)	(3,357)	(2,271)	(1,763)	(189)	(110)	—	(19,214)
Profit before tax	18,757	9,467	9,146	8,843	10,199	1,988	6,774	543	—	65,717
Capital expenditure	2,247	1,565	1,667	1,631	1,405	631	1,144	51	—	10,341
Segment assets	1,041,317	797,048	986,165	829,975	791,787	376,834	2,342,439	115,162	(1,832,216)	5,448,511
Segment liabilities	1,038,581	796,748	990,054	831,066	791,764	378,238	2,010,132	113,940	(1,832,216)	5,118,307
Off-balance sheet credit commitments	187,232	95,175	110,860	96,253	104,593	27,563	15,026	24,573	—	661,275

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36 SEGMENT REPORTING (CONTINUED)

(b) Geographical segments (Continued)

	2005									
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central	Western	Northeastern	Head office	Outside Mainland China	Elimination	Total
External net interest income	21,877	8,203	13,591	11,994	12,608	2,982	44,056	1,240	—	116,551
Internal net interest income/(expense)	4,766	6,272	7,584	5,599	5,715	3,376	(32,684)	(628)	—	—
Net interest income	26,643	14,475	21,175	17,593	18,323	6,358	11,372	612	—	116,551
Net fee and commission income	1,833	1,606	1,426	1,419	1,120	548	430	73	—	8,455
Dividend income	15	17	33	237	57	109	78	—	—	546
Net gain arising from dealing securities	—	—	—	—	—	—	451	4	—	455
Net gain arising from investment securities	41	109	176	325	43	80	1,070	83	—	1,927
Other operating income/(loss)	243	287	209	285	485	191	(1,119)	199	—	780
Operating income	28,775	16,494	23,019	19,859	20,028	7,286	12,282	971	—	128,714
Operating expenses										
— depreciation and amortisation	(1,265)	(957)	(1,047)	(1,231)	(1,075)	(523)	(570)	(18)	—	(6,686)
— others	(10,069)	(7,270)	(9,154)	(9,871)	(9,071)	(4,279)	(1,382)	(310)	—	(51,406)
	(11,334)	(8,227)	(10,201)	(11,102)	(10,146)	(4,802)	(1,952)	(328)	—	(58,092)
	17,441	8,267	12,818	8,757	9,882	2,484	10,330	643	—	70,622
Provisions for impairment losses	(1,870)	(2,544)	(3,398)	(2,778)	(3,351)	(1,044)	(265)	(8)	—	(15,258)
Profit before tax	15,571	5,723	9,420	5,979	6,531	1,440	10,065	635	—	55,364
Capital expenditure	1,523	925	1,242	1,106	1,093	555	2,203	117	—	8,764
Segment assets	863,654	643,197	857,832	703,969	684,549	328,658	1,886,307	68,561	(1,450,985)	4,585,742
Segment liabilities	860,461	642,324	855,680	703,607	684,500	328,913	1,606,345	67,220	(1,450,985)	4,298,065
Off-balance sheet credit commitments	148,964	67,183	92,659	93,666	77,747	32,880	14,279	14,768	—	542,146

37 RISK MANAGEMENT

(a) Credit risk

Credit risk represents the potential loss that may arise from the failure of a debtor to meet its obligation or commitment to the Group. It arises primarily from the Group's credit asset portfolios.

To identify, evaluate, monitor and manage credit risk, the Group designs the necessary organisation framework, credit policies and processes required for effective credit risk management, and implements them across the whole Group upon approval by the Risk Management and Internal Control Committee and by the president. The Risk Management and Internal Control Committee are responsible for organising and coordinating the risk management and internal control functions within the Group, and guiding the department members of the committee in fulfilling their responsibilities.

With respect to daily operations, the Risk Management Department, under the direction of the Risk Management and Internal Control Committee, is responsible for formulating the Group's risk management policies, the Risk Monitoring Department is responsible for monitoring the implementation of risk management policies, the Credit Approval Department is responsible for organising credit approval and loan grading related activities. These risk management departments share and coordinate the work of the Corporate Banking Department, the Housing Finance & Personal Lending Department, the Special Assets Resolution Department and the Legal Department in terms of the application of risk management.

To mitigate risk, the Group may demand collateral and guarantees where appropriate. In respect of the loan portfolios, the Group adopts a risk-based loan classification methodology and classifies loans into five categories: normal, special mention, substandard, doubtful and loss. The last three categories are considered as impaired loans and advances for which objective evidence of impairment exists based on a loss event or several events and which bear significant impairment losses. The allowances for impairment losses for the impaired loans and advances are assessed collectively or individually as appropriate.

The core definitions of the five categories of loans and advances are set out below:

Normal	:	Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
Special mention	:	Borrowers are able to service their loans currently, although repayment may be adversely affected by specific factors.
Substandard	:	Borrowers' abilities to service their loans are in question as they cannot rely entirely on normal business revenues to repay principal and interest. Losses may ensue even when collateral or guarantees are invoked.
Doubtful	:	Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collateral or guarantees are invoked.
Loss	:	Only a small portion or no principal and interest can be recovered after taking all possible measures and exhausting all legal remedies.

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37 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Loans and advances to customers analysed by economic sector concentrations at the balance sheet date are presented in the table below:

	Group			
	2006		2005	
		%		%
Operations in Mainland China				
Corporate loans				
— manufacturing	**510,427**	**18.21**	433,104	17.87
— transportation, storage and postal services	**326,715**	**11.66**	278,532	11.49
— production and supply of electric power, gas and water	**318,493**	**11.36**	265,647	10.96
— property development	**302,290**	**10.79**	256,396	10.58
— construction	**96,580**	**3.45**	86,855	3.58
— water, environment and public utility management	**92,173**	**3.29**	75,959	3.13
— education	**77,458**	**2.76**	63,395	2.62
— wholesale and retail trade	**73,526**	**2.62**	63,179	2.61
— leasing and commercial services	**63,659**	**2.27**	47,444	1.96
— mining	**55,909**	**2.00**	49,332	2.04
— telecommunications, computer services and software	**38,962**	**1.39**	60,304	2.48
— others	**101,769**	**3.63**	95,644	3.94
Subtotal	**2,057,961**		1,775,791	
Personal loans	**585,085**	**20.88**	453,889	18.73
Discounted bills	**159,368**	**5.69**	194,122	8.01
Gross loans and advances to customers	**2,802,414**	**100.00**	2,423,802	100.00
Less: Allowances for impairment losses	**(77,339)**		(62,949)	
Net loans and advances to customers	**2,725,075**		2,360,853	

37 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

	Group			
	2006		2005	
		%		%
Operations outside Mainland China				
Corporate loans				
— property development	**15,292**	**21.48**	4,984	14.41
— manufacturing	**9,903**	**13.91**	8,550	24.71
— transportation, storage and postal services	**8,448**	**11.87**	7,314	21.14
— wholesale and retail trade	**5,005**	**7.03**	1,225	3.54
— telecommunications, computer services and software	**4,393**	**6.17**	4,379	12.66
— leasing and commercial services	**3,686**	**5.18**	3,328	9.62
— production and supply of electric power, gas and water	**3,081**	**4.33**	1,652	4.78
— residential and other services	**2,895**	**4.07**	2,079	6.01
— public management and social organisation	**1,412**	**1.98**	67	0.19
— others	**1,455**	**2.04**	467	1.35
Subtotal	**55,570**		34,045	
Personal loans	**14,255**	**20.02**	364	1.05
Discounted bills	**1,370**	**1.92**	187	0.54
Gross loans and advances to customers	**71,195**	**100.00**	34,596	100.00
Less: Allowances for impairment losses	**(294)**		(136)	
Net loans and advances to customers	**70,901**		34,460	
Total net loans and advances to customers	**2,795,976**		2,395,313	

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37 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Loans and advances to customers analysed by economic sector concentrations at the balance sheet date are presented in the table below:

	Bank			
	2006		2005	
		%		%
Operations in Mainland China				
Corporate loans				
— manufacturing	**510,427**	**18.21**	433,104	17.87
— transportation, storage and postal services	**326,715**	**11.66**	278,532	11.49
— production and supply of electric power, gas and water	**318,493**	**11.36**	265,647	10.96
— property development	**302,290**	**10.79**	256,396	10.58
— construction	**96,580**	**3.45**	86,855	3.58
— water, environment and public utility management	**92,173**	**3.29**	75,959	3.13
— education	**77,458**	**2.76**	63,395	2.62
— wholesale and retail trade	**73,526**	**2.62**	63,179	2.61
— leasing and commercial services	**63,659**	**2.27**	47,444	1.96
— mining	**55,909**	**2.00**	49,332	2.04
— telecommunications, computer services and software	**38,962**	**1.39**	60,304	2.48
— others	**101,769**	**3.63**	95,644	3.94
Subtotal	**2,057,961**		1,775,791	
Personal loans	**585,085**	**20.88**	453,889	18.73
Discounted bills	**159,368**	**5.69**	194,122	8.01
Gross loans and advances to customers	**2,802,414**	**100.00**	2,423,802	100.00
Less: Allowances for impairment losses	**(77,339)**		(62,949)	
Net loans and advances to customers	**2,725,075**		2,360,853	

37 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

	Bank			
	2006		2005	
		%		%
Operations outside Mainland China				
Corporate loans				
— manufacturing	**8,831**	**20.88**	8,458	26.03
— transportation, storage and postal services	**7,778**	**18.39**	7,300	22.46
— property development	**6,761**	**15.99**	4,407	13.56
— telecommunications, computer services and software	**4,312**	**10.20**	4,365	13.43
— wholesale and retail trade	**4,042**	**9.56**	1,084	3.34
— production and supply of electric power, gas and water	**3,061**	**7.24**	1,632	5.02
— leasing and commercial services	**3,022**	**7.14**	2,597	7.99
— residential and other services	**2,741**	**6.48**	1,898	5.84
— others	**1,467**	**3.47**	514	1.58
Subtotal	**42,015**		32,255	
Personal loans	**218**	**0.52**	54	0.17
Discounted bills	**57**	**0.13**	187	0.58
Gross loans and advances to customers	**42,290**	**100.00**	32,496	100.00
Less: Allowances for impairment losses	**(133)**		(123)	
Net loans and advances to customers	**42,157**		32,373	
Total net loans and advances to customers	**2,767,232**		2,393,226	

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37 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Loans and advances to customers analysed by geographical sector risk concentrations at the balance sheet date are presented in the table below:

	Group				Bank			
	2006		2005		**2006**		2005	
		%		%		**%**		%
Yangtze River Delta	**714,373**	**24.86**	608,384	24.75	**714,373**	**25.11**	608,384	24.77
Pearl River Delta	**399,229**	**13.89**	328,399	13.36	**399,229**	**14.03**	328,399	13.37
Bohai Rim	**549,755**	**19.13**	494,216	20.10	**549,755**	**19.33**	494,216	20.12
Central	**463,670**	**16.14**	405,956	16.51	**463,670**	**16.30**	405,956	16.53
Western	**469,428**	**16.34**	398,664	16.22	**469,428**	**16.50**	398,664	16.23
Northeastern	**177,771**	**6.19**	152,762	6.21	**177,771**	**6.25**	152,762	6.22
Head office	**28,188**	**0.98**	35,421	1.44	**28,188**	**0.99**	35,421	1.44
Outside Mainland China	**71,195**	**2.47**	34,596	1.41	**42,290**	**1.49**	32,496	1.32
Gross loans and advances to customers	**2,873,609**	**100.00**	2,458,398	100.00	**2,844,704**	**100.00**	2,456,298	100.00
Less: Allowances for impairment losses	**(77,633)**		(63,085)		**(77,472)**		(63,072)	
Net loans and advances to customers	**2,795,976**		2,395,313		**2,767,232**		2,393,226	

The definitions of geographical segments are set out in Note 36(b).

The table below shows a breakdown of total credit extended by the Group and the Bank by type of collateral:

	Group		Bank	
	2006	2005	**2006**	2005
Loans secured by monetary assets	**265,074**	202,546	**264,258**	202,456
Loans secured by tangible assets, other than monetary assets	**1,212,165**	935,706	**1,186,402**	934,669
Guaranteed loans	**681,167**	633,180	**680,897**	632,797
Unsecured loans	**715,203**	686,966	**713,147**	686,376
Gross loans and advances to customers	**2,873,609**	2,458,398	**2,844,704**	2,456,298
Less: Allowances for impairment losses	**(77,633)**	(63,085)	**(77,472)**	(63,072)
Net loans and advances to customers	**2,795,976**	2,395,313	**2,767,232**	2,393,226

37 RISK MANAGEMENT (CONTINUED)

(b) Market risk

Market risk is the risk of loss, in respect of the Group's on and off-balance sheet activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices and stock prices etc. Market risk arises from both the Group's trading and non-trading business.

The Risk Management Department is responsible for formulating the Group's market risk management policies, the Risk Monitoring Department monitors the implementation of those policies. The Asset and Liability Management Department (the "ALM") of the Bank is responsible for managing the size and structure of the balance sheet, and risk of interest rates and foreign exchange rates, in accordance with the Group's risk management policies. The Treasury Department manages the Group's RMB and foreign currency investment portfolios, conducts proprietary and customer-driven dealings, implements market risk management policies and rules and performs daily identification, measurement, assessment and control of risks in treasury operations.

Value-at-risk ("VaR") analysis, sensitivity analysis and stress testing are the major tools used by the Group to measure and monitor the market risk of its trading business. Gap analysis, interest income sensitivity analysis, economic value analysis and stress testing are the major tools used by the Group to monitor the market risk of its non-trading business.

VaR is a technique which estimates the potential losses that could occur on risk positions taken, due to movements in market rates, foreign exchange rates and prices over a specified time horizon and at a given level of confidence. The ALM and Treasury Department calculates interest rate and exchange rate VaR across its foreign currency debt investments. It uses historical movements in market rates and prices, at a 99% confidence level, with a 1-day holding period. VaR is calculated on a daily basis for foreign currency portfolios. This technique has gradually extended to the debt investment portfolio denominated in RMB.

Stress testing is a technique used to assess the impact on the Group's net interest income and economic value against scenarios using stress moves in a series of market variables, and the results are regularly reviewed.

Gap analysis is a technique to analyse the re-pricing profile of assets and liabilities into time buckets and compare the gap in each time bucket to measure the interest rate re-pricing risk.

The Group considers that any market risk arising from its proprietary trading account is not material.

(c) Interest rate risk

The Group's interest rate exposures mainly comprise structural interest rate exposure of commercial banking business and trading positions of treasury operations.

(i) *Structural interest rate risk*

Interest rate risk is inherent in many of the Group's businesses. It mainly arises from mismatches between repricing dates of assets and liabilities.

The ALM regularly monitors such interest rate risk positions. In terms of measuring and managing the interest rate risk, the Group regularly measures interest rate sensitive repricing gap, and the impact on the Group's net interest income and economic value under scenarios of different interest rates. The primary objective of such interest rate risk management is to reduce potential adverse effects on net interest income and economic value due to interest rate movements.

(ii) *Trading interest rate risk*

The major part of this risk arises from the treasury's investment portfolios. The interest rate risk is monitored using the VaR method described above. Complementary methods are also applied, to capture the portfolio's sensitivities to interest rate movements, expressed as the fair value change for one basis point (0.01%) interest rate movement.

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37 RISK MANAGEMENT (CONTINUED)

(c) Interest rate risk (Continued)

Group

The following tables indicate the effective interest rates for the year and the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities of the Group at the balance sheet date:

	2006						
	Effective interest rate (note (i))	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one and five years	More than five years
Assets							
Cash and balances with central banks	1.70%	539,673	30,191	509,482	—	—	—
Amounts due from banks and non-bank financial institutions	3.33%	82,185	—	77,067	4,879	239	—
Loans and advances to customers (note (ii))	5.57%	2,795,976	—	1,200,801	1,532,253	38,106	24,816
Investments	2.92%	1,909,392	9,617	269,623	618,099	597,663	414,390
Others	—	121,285	121,285	—	—	—	—
Total assets	4.28%	5,448,511	161,093	2,056,973	2,155,231	636,008	439,206
Liabilities							
Amounts due to central banks	2.58%	1,256	—	1,256	—	—	—
Amounts due to banks and non-bank financial institutions	2.21%	243,968	—	239,020	4,698	250	—
Deposits from customers	1.53%	4,721,256	36,346	3,348,482	989,439	335,151	11,838
Certificates of deposit issued	4.17%	6,957	—	4,718	1,443	796	—
Others	—	104,953	104,953	—	—	—	—
Subordinated bonds issued	4.72%	39,917	—	—	9,917	30,000	—
Total liabilities	1.59%	5,118,307	141,299	3,593,476	1,005,497	366,197	11,838
Asset-liability gap	2.69%	330,204	19,794	(1,536,503)	1,149,734	269,811	427,368

37 RISK MANAGEMENT (CONTINUED)

(c) Interest rate risk (Continued)

Group

	2005						
	Effective interest rate (note (i))	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one and five years	More than five years
Assets							
Cash and balances with central banks	1.63%	480,136	28,413	451,723	—	—	—
Amounts due from banks and non-bank financial institutions	2.14%	190,108	—	147,801	42,031	276	—
Loans and advances to customers (note (ii))	5.39%	2,395,313	86	1,028,552	1,312,723	38,971	14,981
Investments	2.88%	1,413,871	11,672	140,108	420,801	621,237	220,053
Others	—	106,314	106,314	—	—	—	—
Total assets	4.14%	4,585,742	146,485	1,768,184	1,775,555	660,484	235,034
Liabilities							
Amounts due to central banks	1.89%	21	—	21	—	—	—
Amounts due to banks and non-bank financial institutions	1.77%	164,524	—	136,089	27,814	621	—
Deposits from customers	1.39%	4,006,046	40,789	2,770,313	905,529	276,616	12,799
Certificates of deposit issued	2.82%	5,429	—	4,198	527	704	—
Others	—	82,138	82,138	—	—	—	—
Subordinated bonds issued	4.63%	39,907	—	—	9,915	29,992	—
Total liabilities	1.44%	4,298,065	122,927	2,910,621	943,785	307,933	12,799
Asset-liability gap	2.70%	287,677	23,558	(1,142,437)	831,770	352,551	222,235

Notes:

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

(ii) For loans and advances to customers, the above "Less than three months" category includes overdue amounts (net of allowances for impairment losses) of RMB52,520 million as at 31 December 2006 (2005: RMB68,412 million). Overdue amounts represent loans, of which the whole or part of the principals was overdue, or interest was overdue for more than 90 days but for which principal was not yet due.

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37 RISK MANAGEMENT (CONTINUED)

(c) Interest rate risk (Continued)

Bank

The following tables indicate the effective interest rates for the year and the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities of the Bank at the balance sheet date:

	2006						
	Effective interest rate (note (i))	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one and five years	More than five years
Assets							
Cash and balances with central banks	1.70%	539,556	30,104	509,452	—	—	—
Amounts due from banks and non-bank financial institutions	3.35%	76,026	—	70,908	4,879	239	—
Loans and advances to customers (note (ii))	5.57%	2,767,232	—	1,173,119	1,531,655	37,779	24,679
Investments	2.92%	1,903,987	9,150	269,205	617,639	593,831	414,162
Amounts due from subsidiaries	4.44%	12,047	9,800	1,745	502	—	—
Others	—	119,055	119,055	—	—	—	—
Total assets	4.28%	5,417,903	168,109	2,024,429	2,154,675	631,849	438,841
Liabilities							
Amounts due to central banks	2.58%	1,256	—	1,256	—	—	—
Amounts due to banks and non-bank financial institutions	2.21%	243,793	—	238,870	4,673	250	—
Amounts due to subsidiaries	3.23%	1,208	502	681	25	—	—
Deposits from customers	1.53%	4,692,843	36,284	3,320,927	988,681	335,113	11,838
Certificates of deposit issued	4.17%	5,957	—	4,514	1,443	—	—
Others	—	103,218	103,218	—	—	—	—
Subordinated bonds issued	4.72%	39,917	—	—	9,917	30,000	—
Total liabilities	1.59%	5,088,192	140,004	3,566,248	1,004,739	365,363	11,838
Asset-liability gap	2.69%	329,711	28,105	(1,541,819)	1,149,936	266,486	427,003

(c) Interest rate risk (Continued)

Bank

	2005						
	Effective interest rate (note (i))	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one and five years	More than five years
Assets							
Cash and balances with central banks	1.63%	480,136	28,413	451,723	—	—	—
Amounts due from banks and non-bank financial institutions	2.12%	190,018	—	147,711	42,031	276	—
Loans and advances to customers (note (ii))	5.39%	2,393,226	86	1,026,466	1,312,722	38,971	14,981
Investments	2.88%	1,412,114	11,669	139,404	420,657	620,512	219,872
Amount due from subsidiaries	4.31%	1,943	—	1,741	202	—	—
Others	—	106,717	106,717	—	—	—	—
Total assets	4.14%	4,584,154	146,885	1,767,045	1,775,612	659,759	234,853
Liabilities							
Amounts due to central banks	1.89%	21	—	21	—	—	—
Amounts due to banks and non-bank financial institutions	1.78%	164,308	—	135,873	27,814	621	—
Amount due to subsidiaries	3.10%	891	—	891	—	—	—
Deposits from customers	1.39%	4,004,228	40,789	2,768,617	905,529	276,494	12,799
Certificates of deposit issued	2.82%	5,429	—	4,198	527	704	—
Others	—	81,986	81,986	—	—	—	—
Subordinated bonds issued	4.63%	39,907	—	—	9,915	29,992	—
Total liabilities	1.44%	4,296,770	122,775	2,909,600	943,785	307,811	12,799
Asset-liability gap	2.70%	287,384	24,110	(1,142,555)	831,827	351,948	222,054

Notes:

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

(ii) For loans and advances to customers, the above "Less than three months" category includes overdue amounts (net of allowances for impairment losses) of RMB52,505 million as at 31 December 2006 (2005: RMB68,306 million). Overdue amounts represent loans, of which the whole or part of the principals was overdue, or interest was overdue for more than 90 days but for which principal was not yet due.

37 RISK MANAGEMENT (CONTINUED)

(d) Currency risk

The Group's foreign exchange exposure mainly comprises exposures that arise from the foreign currency portfolio within the treasury's proprietary investments, and currency exposures originated by the Group's overseas branches.

The Group has invested the capital injection of USD 22,500 million in debt securities and money market instruments denominated in US dollars. On 12 January 2005, the Bank entered into an agreement with Central SAFE Investments Limited ("Huijin"), pursuant to which the Bank purchased from Huijin an option to sell to Huijin a maximum of USD 22,500 million in exchange for Renminbi at a pre-determined exchange rate of USD 1 to RMB8.2769. The option is exercisable in 2007 in twelve equal monthly instalments. The Group will pay a total option premium of RMB5,587 million to Huijin in twelve equal monthly instalments in 2007.

The option was purchased to hedge currency risk arising from the separate fund mentioned above. This option is qualified as a fair value hedge in accordance with IFRS. The change in the fair value of the option and the change in the fair value of the assets in the separate fund due to foreign exchange fluctuations are recognised as a net foreign exchange gain or loss.

The Group values the option using the Garman Kohlhagen option model, which is commonly used by market participants to value currency options. The parameters used for the valuation include relevant market interest rates of RMB and USD, the spot exchange rates of RMB against USD from the PBOC, and the foreign exchange volatility, which is based on that of non-deliverable forwards of RMB against USD, adjusted for the fact that the PRC foreign exchange market is regulated.

The fair value of the option as at 31 December 2006 was approximately RMB12,058 million (2005: RMB9,545 million), which is included in other assets (Note 24). The premium payable in respect of the option is stated at its discounted value of approximately RMB5,496 million (2005: RMB5,348 million) as at 31 December 2006 and is included under other liabilities and provisions (Note 27).

The change in the fair value of the option recognised as net foreign exchange gain for the year ended 31 December 2006 was approximately RMB2,365 million (2005: RMB4,197 million).

On 5 December 2006, the Bank entered into a USD/RMB foreign exchange swap with the PBOC pursuant to which the Bank will sell USD 8,969 million and buy RMB at a pre-determined forward rate on 7 December 2007 to cover the currency risk arising from the corresponding assets denominated in US dollars.

The change in fair value of the foreign exchange swap recognised as net foreign exchange gain for the year ended 31 December 2006 was approximately RMB58 million (2005: net loss of RMB46 million).

The Group manages other currency risk by spot and forward foreign exchange transactions and matching its foreign currency denominated assets with corresponding liabilities in the same currencies.

37 RISK MANAGEMENT (CONTINUED)

(d) Currency risk (Continued)

Group

The Group's total equity is mainly denominated in RMB, which is its functional currency. The currency exposures of the Group's assets and liabilities at the balance sheet date were as follows:

	2006			
	RMB	USD	Others	Total
Assets				
Cash and balances with central banks	530,964	5,930	2,779	539,673
Amounts due from banks and non-bank financial institutions	55,500	20,591	6,094	82,185
Loans and advances to customers	2,647,561	84,622	63,793	2,795,976
Investments	1,583,878	306,685	18,829	1,909,392
Others	110,089	7,133	4,063	121,285
Total assets	4,927,992	424,961	95,558	5,448,511
Liabilities				
Amounts due to central banks	21	—	1,235	1,256
Amounts due to banks and non-bank financial institutions	198,679	40,247	5,042	243,968
Deposits from customers	4,529,300	126,440	65,516	4,721,256
Certificates of deposit issued	—	1,577	5,380	6,957
Others	98,548	5,185	1,220	104,953
Subordinated bonds issued	39,917	—	—	39,917
Total liabilities	4,866,465	173,449	78,393	5,118,307
Net position	61,527	251,512	17,165	330,204
Notional amount of hedging currency option and foreign exchange swap contracts	245,621	(245,621)	—	—
Off-balance sheet credit commitments	544,886	86,926	29,463	661,275

For the year ended 31 December 2006 (Expressed in millions of Renminbi unless otherwise stated)

37 RISK MANAGEMENT (CONTINUED)

(d) Currency risk (Continued)

Group

	2005			
	RMB	USD	Others	Total
Assets				
Cash and balances with central banks	473,590	4,260	2,286	480,136
Amounts due from banks and non-bank financial institutions	32,438	127,205	30,465	190,108
Loans and advances to customers	2,278,785	82,727	33,801	2,395,313
Investments	1,183,101	214,555	16,215	1,413,871
Others	99,871	4,970	1,473	106,314
Total assets	4,067,785	433,717	84,240	4,585,742
Liabilities				
Amounts due to central banks	21	—	—	21
Amounts due to banks and non-bank financial institutions	118,870	40,288	5,366	164,524
Deposits from customers	3,856,445	106,308	43,293	4,006,046
Certificates of deposit issued	—	377	5,052	5,429
Others	77,269	4,298	571	82,138
Subordinated bonds issued	39,907	—	—	39,907
Total liabilities	4,092,512	151,271	54,282	4,298,065
Net position	(24,727)	282,446	29,958	287,677
Notional amount of hedging currency option and foreign exchange swap contracts	253,963	(253,963)	—	—
Off-balance sheet credit commitments	460,151	60,086	21,909	542,146

37 RISK MANAGEMENT (CONTINUED)

(d) Currency risk (Continued)

Bank

The currency exposures of the Bank's assets and liabilities at the balance sheet date were as follows:

	2006			
	RMB	USD	Others	Total
Assets				
Cash and balances with central banks	530,930	5,926	2,700	539,556
Amounts due from banks and non-bank financial institutions	55,402	14,841	5,783	76,026
Loans and advances to customers	2,647,560	83,203	36,469	2,767,232
Investments	1,582,919	302,798	18,270	1,903,987
Amounts due from subsidiaries	—	10,528	1,519	12,047
Others	110,271	6,927	1,857	119,055
Total assets	4,927,082	424,223	66,598	5,417,903
Liabilities				
Amounts due to central banks	21	—	1,235	1,256
Amounts due to banks and non-bank financial institutions	198,679	40,192	4,922	243,793
Amounts due to subsidiaries	258	1	949	1,208
Deposits from customers	4,528,787	118,121	45,935	4,692,843
Certificates of deposit issued	—	1,577	4,380	5,957
Others	98,522	4,154	542	103,218
Subordinated bonds issued	39,917	—	—	39,917
Total liabilities	4,866,184	164,045	57,963	5,088,192
Net position	60,898	260,178	8,635	329,711
Notional amount of hedging currency option and foreign exchange swap contracts	245,621	(245,621)	—	—
Off-balance sheet credit commitments	544,886	86,620	25,597	657,103

For the year ended 31 December 2006 (Expressed in millions of Renminbi unless otherwise stated)

37 RISK MANAGEMENT (CONTINUED)

(d) Currency risk (Continued)

Bank

	2005			
	RMB	USD	Others	Total
Assets				
Cash and balances with central banks	473,590	4,260	2,286	480,136
Amounts due from banks and non-bank financial institutions	32,432	127,190	30,396	190,018
Loans and advances to customers	2,278,785	81,943	32,498	2,393,226
Investments	1,182,978	213,449	15,687	1,412,114
Amounts due from subsidiaries	—	1,131	812	1,943
Others	100,053	4,933	1,731	106,717
Total assets	4,067,838	432,906	83,410	4,584,154
Liabilities				
Amounts due to central banks	21	—	—	21
Amounts due to banks and non-bank financial institutions	118,870	40,072	5,366	164,308
Amounts due to subsidiaries	269	9	613	891
Deposits from customers	3,856,323	105,704	42,201	4,004,228
Certificates of deposit issued	—	377	5,052	5,429
Others	77,252	4,298	436	81,986
Subordinated bonds issued	39,907	—	—	39,907
Total liabilities	4,092,642	150,460	53,668	4,296,770
Net position	(24,804)	282,446	29,742	287,384
Notional amount of hedging currency option and foreign exchange swap contracts	253,963	(253,963)	—	—
Off-balance sheet credit commitments	460,151	59,910	20,961	541,022

37 RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due. It is caused by mismatches in the amount and maturity of assets and liabilities. In line with liquidity policies, the Group closely monitors the future cash flows and maintains suitable levels of readily marketable assets.

At the Group level, liquidity is managed and coordinated through the ALM. The ALM is responsible for formulation of the liquidity policies in accordance with regulatory requirements and prudential principles. Such policies include:

— optimising the Group's asset and liability structure with the principle of matching the maturities of fund in-flows and out-flows;

— maintenance of strong balance sheet liquidity ratios;

— projecting cash flows and assessing the level of liquid assets accordingly; and

— maintenance of sufficient liquid funds through internal transfer pricing.

A substantial portion of the Group's assets are funded by customer deposits. These customer deposits, which have been growing in recent years, are widely diversified in type and maturity and represent a stable source of funds.

In terms of measuring liquidity risk, the Group principally uses liquidity gap analysis, although currently such analysis is restricted to cash flow projections of within one year. Different scenarios are then applied to assess the impact of liquidity risk.

For the year ended 31 December 2006 (Expressed in millions of Renminbi unless otherwise stated)

37 RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk (Continued)

Group

The following tables provide an analysis of the assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the balance sheet date.

	2006						
	Overdue/ repayable on demand	Less than three months	Between three months and one year	Between one and five years	More than five years	Undated	Total
Assets							
Cash and balances with central banks (note (i))	133,958	—	—	—	—	405,715	539,673
Amounts due from banks and non-bank financial institutions	12,921	64,047	4,879	338	—	—	82,185
Loans and advances to customers (note (ii))	59,289	350,341	839,969	837,069	709,308	—	2,795,976
Investments							
— Receivables	—	—	128,211	341,744	76,402	—	546,357
— Held-to-maturity debt securities	—	145,060	255,120	384,962	253,571	—	1,038,713
— Available-for-sale investments	—	58,853	112,038	50,633	87,565	9,617	318,706
— Debt securities at fair value through profit or loss (note (iii))	—	611	741	3,321	943	—	5,616
Others	2,324	17,125	19,125	3,224	683	78,804	121,285
Total assets	208,492	636,037	1,360,083	1,621,291	1,128,472	494,136	5,448,511
Liabilities							
Amounts due to central banks	21	1,235	—	—	—	—	1,256
Amounts due to banks and non-bank financial institutions	203,870	35,150	4,698	250	—	—	243,968
Deposits from customers	2,641,787	731,050	998,144	336,958	13,317	—	4,721,256
Certificates of deposit issued	—	—	1,806	5,151	—	—	6,957
Others	45,967	20,895	25,434	8,395	4,237	25	104,953
Subordinated bonds issued	—	—	—	—	39,917	—	39,917
Total liabilities	2,891,645	788,330	1,030,082	350,754	57,471	25	5,118,307
Long/(short) position	(2,683,153)	(152,293)	330,001	1,270,537	1,071,001	494,111	330,204

37 RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk (Continued)

Group

	2005						
	Overdue/ repayable on demand	Less than three months	Between three months and one year	Between one and five years	More than five years	Undated	Total
Assets							
Cash and balances with central banks (note (i))	136,808	57,370	—	—	—	285,958	480,136
Amounts due from banks and non-bank financial institutions	11,379	136,422	42,031	276	—	—	190,108
Loans and advances to customers (note (ii))	71,195	332,389	783,035	657,218	551,476	—	2,395,313
Investments							
— Receivables	—	—	30,482	349,457	63,790	—	443,729
— Held-to-maturity debt securities	—	67,346	135,556	315,950	125,126	—	643,978
— Available-for-sale investments	—	17,932	138,310	76,353	79,464	11,672	323,731
— Debt securities at fair value through profit or loss (note (iii))	—	—	828	977	628	—	2,433
Others	2,948	10,161	8,295	12,149	508	72,253	106,314
Total assets	222,330	621,620	1,138,537	1,412,380	820,992	369,883	4,585,742
Liabilities							
Amounts due to central banks	21	—	—	—	—	—	21
Amounts due to banks and non-bank financial institutions	85,860	50,229	27,814	621	—	—	164,524
Deposits from customers	2,226,495	583,304	904,671	277,301	14,275	—	4,006,046
Certificates of deposit issued	—	420	2,018	2,991	—	—	5,429
Others	28,204	16,474	21,063	11,697	4,700	—	82,138
Subordinated bonds issued	—	—	—	—	39,907	—	39,907
Total liabilities	2,340,580	650,427	955,566	292,610	58,882	—	4,298,065
Long/(short) position	(2,118,250)	(28,807)	182,971	1,119,770	762,110	369,883	287,677

Notes:

(i) For cash and balances with central banks, undated amount represents statutory deposit reserves and fiscal balances maintained with the PBOC.

(ii) For loans and advances to customers, overdue amount included in the above "overdue/repayable on demand" category represents loans of which the whole or part of the principal was overdue, or interest was overdue for more than 90 days but for which the principal was not yet due. The overdue amount is stated net of appropriate allowances for impairment losses.

(iii) For debt securities held for trading purposes, their remaining terms to maturities do not represent the Group's intended holding periods.

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37 RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk (Continued)

Bank

The following tables provide an analysis of the assets and liabilities of the Bank into relevant maturity groupings based on the remaining periods to repayment at the balance sheet date.

	2006						
	Overdue/ repayable on demand	Less than three months	Between three months and one year	Between one and five years	More than five years	Undated	Total
Assets							
Cash and balances with central banks (note (i))	133,841	—	—	—	—	405,715	539,556
Amounts due from banks and non-bank financial institutions	12,639	58,269	4,879	239	—	—	76,026
Loans and advances to customers (note (ii))	58,167	347,590	836,655	828,575	696,245	—	2,767,232
Investments							
— Receivables	—	—	128,211	341,744	76,402	—	546,357
— Held-to-maturity debt securities	—	145,020	254,912	384,782	253,561	—	1,038,275
— Available-for-sale investments	—	58,853	111,871	48,465	87,562	9,150	315,901
— Debt securities at fair value through profit or loss (note (iii))	—	556	679	1,416	803	—	3,454
Amounts due from subsidiaries	132	634	—	778	703	9,800	12,047
Others	1,763	17,154	18,942	3,178	675	77,343	119,055
Total assets	206,542	628,076	1,356,149	1,609,177	1,115,951	502,008	5,417,903
Liabilities							
Amounts due to central banks	21	1,235	—	—	—	—	1,256
Amounts due to banks and non-bank financial institutions	203,785	35,085	4,673	250	—	—	243,793
Amounts due to subsidiaries	529	654	25	—	—	—	1,208
Deposits from customers	2,634,713	710,606	997,298	336,909	13,317	—	4,692,843
Certificates of deposit issued	—	—	1,806	4,151	—	—	5,957
Others	44,320	20,812	25,430	8,394	4,237	25	103,218
Subordinated bonds issued	—	—	—	—	39,917	—	39,917
Total liabilities	2,883,368	768,392	1,029,232	349,704	57,471	25	5,088,192
Long/(short) position	(2,676,826)	(140,316)	326,917	1,259,473	1,058,480	501,983	329,711

37 RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk (Continued)

Bank

	2005						
	Overdue/ repayable on demand	Less than three months	Between three months and one year	Between one and five years	More than five years	Undated	Total
Assets							
Cash and balances with central banks (note (i))	136,808	57,370	—	—	—	285,958	480,136
Amounts due from banks and non-bank financial institutions	11,344	136,367	42,031	276	—	—	190,018
Loans and advances to customers (note (ii))	70,978	331,656	782,781	656,733	551,078	—	2,393,226
Investments							
— Receivables	—	—	30,482	349,457	63,790	—	443,729
— Held-to-maturity debt securities	—	67,292	135,439	315,814	125,126	—	643,671
— Available-for-sale investments	—	17,797	137,787	75,766	79,262	11,669	322,281
— Debt securities at fair value through profit or loss (note (iii))	—	—	828	977	628	—	2,433
Amount due from subsidiaries	36	977	410	520	—	—	1,943
Others	2,789	10,161	8,295	12,149	508	72,815	106,717
Total assets	221,955	621,620	1,138,053	1,411,692	820,392	370,442	4,584,154
Liabilities							
Amounts due to central banks	21	—	—	—	—	—	21
Amounts due to banks and non-bank financial institutions	85,860	50,013	27,814	621	—	—	164,308
Amount due to subsidiaries	570	321	—	—	—	—	891
Deposits from customers	2,226,113	582,081	904,581	277,178	14,275	—	4,004,228
Certificates of deposit issued	—	420	2,018	2,991	—	—	5,429
Others	28,081	16,449	21,059	11,697	4,700	—	81,986
Subordinated bonds issued	—	—	—	—	39,907	—	39,907
Total liabilities	2,340,645	649,284	955,472	292,487	58,882	—	4,296,770
Long/(short) position	(2,118,690)	(27,664)	182,581	1,119,205	761,510	370,442	287,384

Notes:

(i) For cash and balances with central banks, undated amount represents statutory deposit reserves and fiscal balances maintained with the PBOC.

(ii) For loans and advances to customers, overdue amount included in the above "overdue/repayable on demand" category represents loans of which the whole or part of the principal was overdue, or interest was overdue for more than 90 days but for which the principal was not yet due. The overdue amount is stated net of appropriate allowances for impairment losses.

(iii) For debt securities held for trading purposes, their remaining terms to maturities do not represent the Group's intended holding periods.

37 RISK MANAGEMENT (CONTINUED)

(f) Use of derivatives

Derivatives include forward, swap and option transactions undertaken by the Group in the foreign exchange and interest rate markets. The Group, through the operations of its branch network, acts as an intermediary between a wide range of customers, and structures deals to offer customised risk management products to suit individual customer needs. These positions are actively managed through entering offsetting deals with external parties to ensure that the Group's net exposures are within acceptable risk levels. No significant proprietary positions are maintained by the Group at the balance sheet date. The Group also uses derivatives (principally foreign exchange options and swaps, and interest rate swaps) in the management of its own asset and liability portfolios and structural positions.

The primary derivatives utilised by the Group are shown in the following table.

Derivatives	Description
Cross-currency, foreign exchange and interest rate swaps:	Cross-currency, foreign exchange and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) whereas cross-currency will result in an economic exchange of both currencies and interest rates.
Foreign currency and interest rate options:	Foreign currency and interest rate options are contractual agreements under which the seller grants the purchaser the right, but not the obligation, either to buy or sell at or by a predetermined date or during a predetermined period, a specific amount of a foreign currency or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between the Group and a customer over the counter.
Currency forwards:	Currency forwards represent commitments to purchase or sell foreign exchanges at a certain date in the future.

37 RISK MANAGEMENT (CONTINUED)

(f) Use of derivatives (Continued)

The following tables provide an analysis of the notional amounts of derivatives of the Group by relevant maturity groupings based on the remaining periods to settlement and the corresponding fair values at the balance sheet date.

The notional amounts of the derivatives indicate the volume of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

Group

	2006						
	Notional amounts with remaining life of					Fair values	
	less than three months	between three months and one year	between one year and five years	more than five years	Total	Assets	Liabilities
Interest rate derivatives							
Interest rate swaps	12,943	36,846	37,437	13,454	100,680	882	793
Cross-currency swaps	6,909	427	1,551	5,704	14,591	225	247
	19,852	37,273	38,988	19,158	115,271	1,107	1,040
Currency derivatives							
Spot	13,344	—	—	—	13,344	8	4
Forwards	47,574	104,509	1,382	—	153,465	1,074	1,381
Foreign exchange swaps	24,077	101,978	943	—	126,998	251	276
Currency options purchased	44,359	131,711	—	—	176,070	12,074	—
Currency options written	1,801	781	—	—	2,582	—	14
	131,155	338,979	2,325	—	472,459	13,407	1,675
Total						14,514	2,715
						(Note 24)	(Note 27)

For the year ended 31 December 2006 (Expressed in millions of Renminbi unless otherwise stated)

37 RISK MANAGEMENT (CONTINUED)

(f) Use of derivatives (Continued)

Group

	2005						
	Notional amounts with remaining life of					Fair values	
	less than three months	between three months and one year	between one year and five years	more than five years	Total	Assets	Liabilities
Interest rate derivatives							
Interest rate swaps	21,254	16,536	33,464	18,440	89,694	1,193	1,199
Cross-currency swaps	512	3,684	1,892	288	6,376	662	695
Interest futures	—	104	—	—	104	—	—
Interest rate options written	1,372	—	—	—	1,372	—	12
	23,138	20,324	35,356	18,728	97,546	1,855	1,906
Currency derivatives							
Spot	2,943	—	—	—	2,943	—	—
Forwards	44,235	32,339	1,904	—	78,478	483	394
Foreign exchange swaps	30,884	79,710	—	—	110,594	249	178
Currency options purchased	101	155	181,580	—	181,836	9,550	3
Currency options written	269	2,448	—	—	2,717	9	9
	78,432	114,652	183,484	—	376,568	10,291	584
Total						12,146	2,490
						(Note 24)	(Note 27)

37 RISK MANAGEMENT (CONTINUED)

(f) Use of derivatives (Continued)

Bank

	2006						
	Notional amounts with remaining life of					Fair values	
	less than three months	between three months and one year	between one year and five years	more than five years	Total	Assets	Liabilities
Interest rate derivatives							
Interest rate swaps	12,889	36,783	36,423	13,313	99,408	863	788
Cross-currency swaps	6,909	427	1,551	5,704	14,591	225	247
	19,798	37,210	37,974	19,017	113,999	1,088	1,035
Currency derivatives							
Spot	13,344	—	—	—	13,344	8	4
Forwards	34,895	104,509	1,382	—	140,786	865	1,191
Foreign exchange swaps	24,077	101,978	943	—	126,998	251	276
Currency options purchased	44,111	131,711	—	—	175,822	12,074	—
Currency options written	1,553	781	—	—	2,334	—	16
	117,980	338,979	2,325	—	459,284	13,198	1,487
Total						14,286	2,522
						(Note 24)	(Note 27)

For the year ended 31 December 2006 (Expressed in millions of Renminbi unless otherwise stated)

37 RISK MANAGEMENT (CONTINUED)

(f) Use of derivatives (Continued)

Bank

	2005						
	Notional amounts with remaining life of					Fair values	
	less than three months	between three months and one year	between one year and five years	more than five years	Total	Assets	Liabilities
Interest rate derivatives							
Interest rate swaps	21,254	16,536	33,464	18,440	89,694	1,193	1,199
Cross-currency swaps	512	3,684	1,892	288	6,376	662	695
Interest futures	—	104	—	—	104	—	—
Interest rate options written	1,372	—	—	—	1,372	—	12
	23,138	20,324	35,356	18,728	97,546	1,855	1,906
Currency derivatives							
Spot	2,943	—	—	—	2,943	—	—
Forwards	44,235	32,339	1,904	—	78,478	483	394
Foreign exchange swaps	30,884	79,710	—	—	110,594	249	178
Currency options purchased	101	155	181,580	—	181,836	9,550	3
Currency options written	269	2,448	—	—	2,717	9	9
	78,432	114,652	183,484	—	376,568	10,291	584
Total						12,146	2,490
						(Note 24)	(Note 27)

The replacement costs and credit risk weighted amounts in respect of these derivatives are as follows:

Replacement costs

	Group		Bank	
	2006	2005	**2006**	2005
Interest rate derivatives	**1,107**	1,855	**1,088**	1,855
Currency derivatives, net of option premium payable	**7,911**	4,943	**7,702**	4,943
	9,018	6,798	**8,790**	6,798

Replacement cost represents the cost of replacing all contracts which have a positive value when marked to market. Replacement cost is a close approximation of the credit risk for these derivative contracts as at the balance sheet date.

37 RISK MANAGEMENT (CONTINUED)

(f) Use of derivatives (Continued)

Credit risk weighted amounts

	Group		Bank	
	2006	2005	**2006**	2005
Interest rate derivatives	**2,075**	2,458	**2,049**	2,458
Currency derivatives	**3,506**	1,914	**3,165**	1,914
	5,581	4,372	**5,214**	4,372

The credit risk weighted amount refers to the amount as computed in accordance with the rules set out by the CBRC and depends on the status of the counterparty and the maturity characteristics. The effects of bilateral netting arrangements have been taken into account in calculating the credit risk weighted amounts.

In accordance with the rules set out by the CBRC, the credit risk weight assigned to the PBOC and Huijin, which is a government agency, is zero. Therefore, the credit risk weighted amount of the foreign currency swap with the PBOC and currency option purchased from Huijin (Note 37(d)) is zero.

(g) Operational risk

Operational risk represents the risk of loss due to deficiencies and failure of internal processes, personnel and information system, or other external events.

The Group manages this risk through a control-based environment by establishing a framework of policies and procedures in order to identify, assess, control, manage and report risks. The framework covers all business functions ranging from finance, credit, accounting, settlement, savings, treasury, intermediary business, computer applications and management, special assets resolution and legal affairs. This has allowed the Group to comprehensively identify and address the operational risk inherent in all key products, activities, processes and systems. Key controls include:

— authorisation limits for branches and functional departments are delegated after consideration of their respective business scope, risk management capabilities and credit approval procedures. Such authorisations are revised on a timely basis to reflect changes in market conditions, business development and risk management needs;

— the use of centralised authorisation, consistent operational policies and strict disciplinary measures to establish sound accountability;

— systems and procedures to identify, monitor and report on the major risks: credit, market, liquidity and operational;

— promotion of an overall risk management culture throughout the organisation by building a team of managers with systematic training and having an appraisal system in place, to raise the overall risk awareness among the Group's employees;

— a dedicated anti-money laundering division under the Compliance Department responsible for overseeing that cash management and account management are in compliance with the relevant regulations, and for improving training on anti-money laundering to ensure our employees are well-equipped with the necessary knowledge and basic skills to combat money laundering;

37 RISK MANAGEMENT (CONTINUED)

(g) Operational risk (Continued)

— the review and approval by senior management of comprehensive financial and operating plans which are prepared by branches;

— the assessment of individual branches' financial performance against the comprehensive financial and operating plan; and

— the maintenance of contingent facilities (including backup systems and disaster recovery schemes) to support all major operations, especially back office operations, in the event of an unforeseen interruption. Insurance cover is arranged to mitigate potential losses associated with certain operational events.

(h) Fair value

(i) Financial assets

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

Amounts due from central banks, banks and non-bank financial institutions

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

Loans and advances to customers

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

Investments

Available-for-sale investments and debt securities at fair value through profit or loss are stated at fair value in the financial statements. The following table shows the carrying values and the fair values of receivables and held-to-maturity debt securities which are not presented on the balance sheet at their fair values.

37 RISK MANAGEMENT (CONTINUED)

(h) Fair value (Continued)

(i) Financial assets (Continued)

	Group			
	Carrying values		Fair values	
	2006	2005	**2006**	2005
Receivables	**546,357**	443,729	**545,538**	444,056
Held-to-maturity debt securities	**1,038,713**	643,978	**1,045,201**	653,514

	Bank			
	Carrying values		Fair values	
	2006	2005	**2006**	2005
Receivables	**546,357**	443,729	**545,538**	444,056
Held-to-maturity debt securities	**1,038,275**	643,671	**1,044,763**	653,207

(ii) Financial liabilities

The Group's financial liabilities mainly include amounts due to banks and non-bank financial institutions, deposits from customers, certificates of deposit issued and subordinated bonds issued. The carrying values of financial liabilities approximated their fair values at the balance sheet date, except that the fair value of subordinated bonds issued as at 31 December 2006 was RMB41,100 million (2005: RMB41,431 million), which was higher than their carrying value of RMB39,917 million (2005: RMB39,907 million).

38 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

In determining the carrying amounts of some assets and liabilities, the Group makes estimates of the effects of uncertain future events on those assets and liabilities at the balance sheet date. These estimates involve assumptions about such items as risk adjustment to cash flows or discount rates used and future changes in prices affecting other costs. The Group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies.

(a) Impairment losses on loans and advances

Loan portfolios are reviewed periodically to assess whether impairment losses exist and if they exist, the amounts of impairment losses. Objective evidence for impairment includes observable data indicating that there is a measurable decrease in the estimated future cash flows identified with an individual loan. It also includes observable data indicating adverse changes in the repayment status of borrowers in the loan portfolio or national or local economic conditions that correlate with defaults on the loans in the portfolio. The impairment loss for a loan that is individually assessed for impairment is the decrease in the estimated discounted future cash flow of that loan. When loans and advances are collectively assessed for impairment, the estimate is based on historical loss experience for assets with credit risk characteristics similar to the loans and advances. Historical loss experience is adjusted on the basis of the relevant observable data that reflect current economic conditions. Management review the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss.

(b) Impairment of available-for-sale equity investments

For available-for-sale equity investments, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. Judgement is required when determining whether a decline in fair value has been significant or prolonged. In making this judgement, the historical data on market volatility as well as on the share price of the specific equity investment are taken into account. The Group also takes into account other factors, such as industry and sector performance, and financial information regarding the investee.

(c) Fair value of financial instruments

For a number of financial instruments, no quoted prices from an active market exist. The fair values for these financial instruments are established by using valuation techniques. These techniques include using recent arm's length market transactions, reference to the current fair value of similar instruments and discounted cash flow analysis and option pricing models. The Group has established a process to ensure that valuation techniques are constructed by qualified personnel and are validated and reviewed by independent personnel. Valuation techniques are certified before implementation and are calibrated to ensure that outputs reflect actual market conditions. Valuation models established by the Group make the maximum use of market inputs and rely as little as possible on Group-specific data. However, it should be noted that some inputs, such as credit and counterparty risk, and risk correlations, require management estimates. Management estimates and assumptions are reviewed periodically and are adjusted if necessary.

(d) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity investments if the Group has the intention and ability to hold them until maturity. In evaluating whether the requirements to classify a financial asset as held-to-maturity are met, management make significant judgements. Failure in correctly assessing the Group's intention and ability to hold specific investments until maturity may result in reclassification of the whole portfolio as available-for-sale.

(e) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

39 MATERIAL RELATED PARTY TRANSACTIONS

(a) Huijin and companies under Huijin

(i) *Huijin*

Huijin directly and indirectly owned 70.69% of the issued share capital of the Bank as at 31 December 2006 and 2005. Huijin was incorporated on 16 December 2003 as a wholly state-owned investment company with the approval of the State Council. Huijin is a government agency, and was established to hold certain equity investments on behalf of the State Council. Huijin represents the PRC government in exercising its investors' rights and obligations in certain financial institutions such as the Bank. As part of the Restructuring, the Group carried out the following transactions with Huijin:

— Huijin has undertaken to assume all the debts, obligations and liabilities relating to the business acquired by the Bank, which arose for any reason prior to 31 December 2003 and were not succeeded by the Bank at Restructuring; and

— Huijin entered into a foreign exchange option agreement with the Bank on 12 January 2005 (Note 37(d)). The purpose of the option is to hedge against the Bank's currency risk arising from capital contributed by Huijin of USD22,500 million.

Transactions during the year and the corresponding balances outstanding at the balance sheet date with Huijin are as follows:

	Group and Bank	
	2006	2005
Interest expense arising from:		
Deposits from customers	**1,120**	195
Liabilities:		
Deposits from customers	**24,616**	18,334
Dividend payable	**—**	2,567
Interest payable	**63**	27
Total	**24,679**	20,928

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39 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Huijin and companies under Huijin (Continued)

(ii) *Jianyin*

As at 31 December 2006 and 2005 Jianyin directly owned 9.21% of the issued share capital of the Bank. Its principal activities include the holding of equity investments, asset management and other business activities as approved by the relevant PRC government authorities.

Jianyin and its subsidiaries entered into certain services and operating lease agreements with the Group subsequent to the Restructuring.

Transactions during the year and the corresponding balances outstanding at the balance sheet date with Jianyin and its subsidiaries are as follows:

	Group and Bank	
	2006	2005
Income or expenses:		
Interest income	**26**	—
Interest expenses	**170**	6
Other income (note (ii-1))	**133**	53
Operating expenses (note (ii-2))	**646**	200
Assets or liabilities:		
Loans and advances to customers	**46**	—
Other assets (note (ii-3))	**275**	20
Amounts due to banks and non-bank financial institutions	**13,706**	233
Other liabilities and provisions (Note 27)	**5,320**	5,211
Deposits from customers	**1,130**	462
Dividend payable	**—**	348

Notes:

(ii-1) This includes custody management fee income earned by the Group for managing assets on behalf of Jianyin and its subsidiaries and income from disposal of property and equipment to Jianyin and its subsidiaries.

(ii-2) This mainly represents rental expenses paid by the Group for leasing assets, including properties and motor vehicles, owned by Jianyin and its subsidiaries, and fees for supporting services provided by Jianyin and its subsidiaries.

(ii-3) This mainly represents payments for the acquisition of property and equipment by the Group on behalf of Jianyin and its subsidiaries.

(ii-4) Amounts due from/to Jianyin and its subsidiaries are unsecured and are repayable under normal commercial terms. No allowance for impairment losses was made in respect of amounts due from Jianyin and its subsidiaries.

During 2006, the Group acquired fixed assets with net amount RMB120 million (2005: Nil) from Jianyin and its subsidiaries.

39 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Huijin and companies under Huijin (Continued)

(iii) *Other companies under Huijin*

Huijin also has controlling equity interests in certain other banks and non-bank financial institutions in Mainland China. The Group enters into banking transactions with these companies in the normal course of its banking business at market rates. These include sale and purchase of debt securities, conducting money market transactions and inter-bank clearing.

Transactions during the year and corresponding balances outstanding at the balance sheet date with these companies are as follows:

	Group and Bank	
	2006	2005
Interest income arising from:		
Debt securities issued by these banks and non-bank financial institutions	**620**	600
Amounts due from these banks and non-bank financial institutions	**38**	54
Loans and advances to customers	**3**	—
	661	654
Interest expense arising from:		
Amounts due to these banks and non-bank financial institutions	**141**	91
Assets or liabilities:		
Debt securities issued by these banks and non-bank financial institutions	**15,974**	31,191
Amounts due from these banks and non-bank financial institutions	**3,374**	4,374
Loans and advances to customers	**240**	—
	19,588	35,565
Amounts due to these banks and non-bank financial institutions	**16,934**	5,726

The Group has issued subordinated bonds with a nominal value of RMB40,000 million. These bonds are bearer bonds and are traded in the secondary market. Accordingly, the Group has no information in respect of the amount of the Group's bonds held by these banks and non-bank financial institutions at the balance sheet date.

39 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Transactions with other PRC state-owned entities

The Group operates in an economic regime currently predominated by entities directly or indirectly owned by the PRC government through its government authorities, agencies, affiliations and other organisations ("state-owned entities").

Transactions with other state-owned entities include but are not limited to the following:

— lending and deposit taking;

— taking and placing of inter-bank balances;

— entrusted lending and other custody services;

— insurance and securities agency, and other intermediary services;

— sale, purchase, underwriting and redemption of bonds issued by other state-owned entities;

— purchase, sale and leases of property and other assets; and

— rendering and receiving of utilities and other services.

These transactions are conducted in the ordinary course of the Group's banking business on terms similar to those that would have been entered into with non-state-owned entities. The Group has also established its pricing strategy and approval processes for major products and services, such as loans, deposits and commission income. Such pricing strategy and approval processes do not depend on whether the customers are state-owned entities or not. Having due regard to the substance of the relationships, the Bank is of the opinion that none of these transactions are material related party transactions that require separate disclosure.

39 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including Directors, Supervisors and Executive Officers.

The compensation of Directors and Supervisors is disclosed in Note 10. The Executive Officers' annual compensation before individual income tax during the year is as follows:

	Group and Bank					
	2006					
	Salaries RMB'000	Discretionary bonus RMB'000	Sub-total RMB'000	Contributions to defined contribution retirement schemes RMB'000	(note(i)) Other benefits in kind RMB'000	Total RMB'000
Vice president						
Xin Shusen	426	585	1,011	19	208	1,238
Chen Zuofu	426	581	1,007	19	204	1,230
Fan Yifei	426	634	1,060	19	241	1,320
Chief financial officer						
Pang Xiusheng (appointed in April 2006)	253	338	591	13	131	735
Chief risk officer						
Zhu Xiaohuang (appointed in April 2006)	253	346	599	13	105	717
Chief auditor						
Yu Yongshun	380	470	850	19	145	1,014
Secretary to the board of directors, controller of investment and wealth management banking						
Zhang Long (note (ii))	221	282	503	11	149	663
Controller of wholesale banking						
Gu Jingpu (appointed in May 2006)	221	289	510	11	110	631
Controller of retailing banking						
Du Yajun (appointed in May 2006)	221	289	510	—	87	597
Company secretary						
Ha Yiu Fai	1,685	657	2,342	101	30	2,473
Qualified accountant						
Yuen Yiu Leung	1,130	770	1,900	90	16	2,006
	5,642	5,241	10,883	315	1,426	12,624
Resigned in 2006						
Secretary to the board of directors						
Xuan Changneng	285	349	634	16	149	799
	5,927	5,590	11,517	331	1,575	13,423

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39 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Key management personnel (Continued)

	Group and Bank					
	2005					
	Salaries RMB'000	Discretionary bonus RMB'000	Sub-total RMB'000	Contributions to defined contribution retirement schemes RMB'000	(note(i)) Other benefit in kind RMB'000	Total RMB'000
Vice president						
Luo Zhefu	410	482	892	16	60	968
Xin Shusen (appointed in July 2005)	410	487	897	16	69	982
Chen Zuofu (appointed in July 2005)	398	482	880	16	69	965
Fan Yifei (appointed in July 2005)	398	483	881	16	107	1,004
Chief auditor						
Yu Yongshun (appointed in July 2005)	130	164	294	7	41	342
Secretary to the board of directors						
Xuan Changneng	325	348	673	16	83	772
Company secretary						
Ha Yiu Fai (appointed in August 2005)	1,716	1,001	2,717	94	859	3,670
Qualified accountant						
Yuen Yiu Leung (appointed in August 2005)	1,053	474	1,527	67	19	1,613
	4,840	3,921	8,761	248	1,307	10,316

Note:

(i) Other benefits in kind included the Bank's contributions to medical fund, housing provident fund and other social insurances, which are payable to labour and securities authorities based on the lower of certain percentages of the salaries or the prescribed upper limits as required by the relevant regulations issued by the government authorities. Other benefits also included the Bank's contribution to its own corporate annuity plan, which was set up in 2006 in accordance with the national annuity plan and relevant policies, and supplementary medical insurance.

(ii) Mr Zhang Long was appointed as the controller of investment and wealth management banking in May 2006 and appointed as the secretary to the board of directors in December 2006. His appointment as the secretary to the board of directors is subject to the approval of CBRC.

39 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Contributions to defined contribution retirement schemes

The Group participates in various defined contribution retirement schemes organised by municipal and provincial governments for its employees in Mainland China. For its employees outside Mainland China, the Group participates in various defined contribution retirement schemes at funding rates determined in accordance with the local practices and regulations. The details of the Group's defined contribution retirement schemes are described in Notes 27(a) and 28(a).

40 EVENTS AFTER THE BALANCE SHEET DATE

(a) Final dividend

After the balance sheet date, the Directors proposed a final dividend. Further details are disclosed in Note 31(b).

(b) Tax reform in 2008

On 16 March 2007, the Tenth National People's Congress plenary session passed the unified enterprise income tax law. Pursuant to the unified income tax law, the income tax rate that is applicable to the Bank and its subsidiaries in the Mainland China will be reduced from 33% to 25% effective from 1 January 2008. The Group did not adopt the reduced income tax rate when preparing its financial statements for the year ended 31 December 2006 as the above change in income tax law constitutes a non-adjusting post balance sheet event. The Group is in the process of collecting information to assess the impact on the financial position as a result of the above changes in the enterprise income tax law.

(c) Credit Card Cooperation with Bank of America Corporation ("BAC")

On 13 April 2007, the board of directors has approved the memorandum of understanding between the Bank and BAC for credit card cooperation. According to the mutual agreement between both parties, the Bank will establish an independent and centralised credit card business unit. Upon the satisfaction of certain conditions (including obtaining approvals from all relevant government units), the credit card business unit will be converted into a Sino-foreign credit card joint venture incorporated in the PRC. The Bank will hold an interest of 63% in the joint venture and BAC will hold an interest of 37%. Both parties' interest will be subject to a lockup period of no less than three years.

The above proposed cooperation is subject to shareholders' approval at the forthcoming annual general meeting to be held on 13 June 2007.

41 ULTIMATE PARENT

The Group is owned and controlled by the PRC government. The majority of the Group's shares are held by Huijin, a government agency.

42 COMPARATIVE FIGURES

Certain comparative figures have been re-classified to conform with current year's presentation.

(Expressed in millions of Renminbi unless otherwise stated)

The information set out below does not form part of the audited financial statements, and is included herein for information purposes only.

(a) DIFFERENCES BETWEEN THE FINANCIAL STATEMENTS PREPARED UNDER IFRS AND THOSE PREPARED IN ACCORDANCE WITH PRC GAAP

China Construction Bank Corporation (the "Bank") prepares consolidated financial statements, which include the financial statements of the Bank and its subsidiaries (collectively the "Group"), in accordance with International Financial Reporting Standards ("IFRS") and its interpretations promulgated by the International Accounting Standards Board and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

As a financial institution incorporated in the People's Republic of China (the "PRC"), the Bank also prepares its statutory financial statements for the year ended 31 December 2006 in accordance with the Accounting Standards for Business Enterprises, the *Accounting Regulations for Financial Enterprises* (2001) and other relevant regulations issued by the Ministry of Finance of the PRC (collectively "PRC GAAP").

There is no difference in the net profit attributable to shareholders of the Bank for the year ended 31 December 2006 or total equity attributable to shareholders of the Bank as at 31 December 2006 between the Group's consolidated financial statements prepared under IFRS and the Bank's statutory financial statements prepared under PRC GAAP.

(b) LIQUIDITY RATIOS

	Group	
	2006	2005
Renminbi current assets to Renminbi current liabilities	**39.05%**	47.50%
Foreign currency current assets to foreign currency current liabilities	**200.36%**	144.18%

The above liquidity ratios are calculated in accordance with the formula promulgated by the China Banking Regulatory Commission. Prior to 2006, the Bank disclosed its liquidity ratios calculated in accordance with the formula promulgated by the People's Bank of China. Comparative figures have been revised to conform with current year's presentation.

(c) CAPITAL ADEQUACY RATIO

The capital adequacy ratio is prepared in accordance with the guideline *Regulation Governing Capital Adequacy of Commercial Banks* [Order (2004) No.2] effective on 1 March 2004, which may have significant differences with the relevant requirements in the Hong Kong Special Administrative Region ("Hong Kong") of the PRC or other countries.

The capital adequacy ratios and the related components of the Group at balance sheet date were as follows:

	Group	
	2006	2005
Core capital adequacy ratio (note (i))	**9.92%**	11.08%
Capital adequacy ratio (note (ii))	**12.11%**	13.59%
Components of capital base		
Core capital:		
— Paid up ordinary share capital	**224,689**	224,689
— Share premium	**42,091**	42,091
— Other reserves (note (iii))	**42,658**	17,429
— Minority interests	**95**	98
	309,533	284,307
Supplementary capital:		
— General provision for doubtful debts	**28,736**	24,584
— Term subordinated bonds	**40,000**	40,000
	68,736	64,584
Total capital base before deductions	**378,269**	348,891
Deduction:		
— Goodwill	**(1,743)**	—
— Unconsolidated equity investments	**(2,131)**	(787)
Total capital base after deductions	**374,395**	348,104
Risk weighted assets (note (iv))	**3,091,089**	2,562,153

Notes:

(i) Core capital adequacy ratio is calculated by dividing the net amount of core capital after deductions of 100% of goodwill and 50% of unconsolidated equity investments by risk weighted assets.

(ii) Capital adequacy ratio is calculated by dividing the total capital base after deductions by risk weighted assets.

(iii) Other reserves have been deducted by the dividend declared by the Bank after balance sheet date.

(iv) The balances of risk weighted assets include 12.5 times of the market risk capital.

(Expressed in millions of Renminbi unless otherwise stated)

(d) CURRENCY CONCENTRATIONS

	Group			
	2006			
	US Dollars	HK Dollars	Others	Total
Spot assets	427,605	58,808	37,250	523,663
Spot liabilities	(173,449)	(53,402)	(24,991)	(251,842)
Forward purchases	153,315	11,839	14,607	179,761
Forward sales	(206,302)	(3,481)	(22,733)	(232,516)
Net option position	(175,615)	—	—	(175,615)
Net long position	25,554	13,764	4,133	43,451
Net structural position	—	301	11	312

	Group			
	2005			
	US Dollars	HK Dollars	Others	Total
Spot assets	433,717	48,014	36,011	517,742
Spot liabilities	(151,271)	(30,922)	(23,360)	(205,553)
Forward purchases	100,048	6,513	7,368	113,929
Forward sales	(135,922)	(22,627)	(14,389)	(172,938)
Net option position	(181,580)	—	—	(181,580)
Net long position	64,992	978	5,630	71,600
Net structural position	—	203	12	215

The net option position is calculated using the delta equivalent approach required by the Hong Kong Monetary Authority (the "HKMA"). The net structural position of the Group includes the structural positions of the Bank's overseas branches, banking subsidiaries and other subsidiaries substantially involved in foreign exchange. Structural assets and liabilities include:

— investments in property and equipment and premises, net of accumulated depreciation;

— capital and statutory reserves of overseas branches; and

— investments in overseas subsidiaries and related companies.

(e) CROSS-BORDER CLAIMS

The Group is principally engaged in business operations within Mainland China, and regards all claims on third parties outside Mainland China as cross-border claims.

For the purpose of these unaudited supplementary financial information, Mainland China excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan.

Cross-border claims include loans and advances, balances and placements with banks and non-bank financial institutions, holdings of trade bills and certificates of deposit and investment securities.

Cross-border claims have been disclosed by country or geographical area. A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of cross-border claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

	Group			
	2006			
	Banks and non-bank financial institutions	**Public sector entities**	**Others**	**Total**
Asia Pacific excluding Mainland China	**26,317**	**4,914**	**23,330**	**54,561**
— of which attributed to Hong Kong	**8,550**	**1,747**	**7,083**	**17,380**
Europe	**61,064**	**4,030**	**5,175**	**70,269**
North and South America	**127,769**	**121,122**	**10,951**	**259,842**
	215,150	**130,066**	**39,456**	**384,672**

	Group			
	2005			
	Banks and non-bank financial institutions	Public sector entities	Others	Total
Asia Pacific excluding Mainland China	123,597	1,479	17,183	142,259
— of which attributed to Hong Kong	83,578	903	6,165	90,646
Europe	74,108	3,805	5,897	83,810
North and South America	85,507	81,085	6,818	173,410
	283,212	86,369	29,898	399,479

(Expressed in millions of Renminbi unless otherwise stated)

(f) OVERDUE LOANS AND ADVANCES TO CUSTOMERS BY GEOGRAPHIC SECTOR

	Group	
	2006	2005
Yangtze River Delta	**9,599**	8,395
Pearl River Delta	**12,498**	13,965
Bohai Rim	**21,468**	18,178
Central	**12,142**	11,443
Western	**12,954**	14,019
Northeastern	**6,374**	6,181
Head office	**2,439**	2,234
Overseas	**155**	77
Total	**77,629**	74,492

The above analysis includes loans and advances overdue for more than 90 days as required by the HKMA.

Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

For loans and advances repayable by regular instalments, if part of the instalments is overdue, the whole amount of these loans would be classified as overdue.

Loans and advances repayable on demand are classified as overdue when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instructions. If the loans and advances repayable on demand are outside the approved limit that was advised to the borrower, they are also considered as overdue.

(g) GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES TO CUSTOMERS

	Group	
	2006	2005
Gross loans and advances to customers which have been overdue with respect to either principal or interest for periods of:		
— between 3 and 6 months	**9,798**	11,475
— between 6 and 12 months	**14,295**	15,567
— over 12 months	**53,536**	47,450
Total	**77,629**	74,492
As a percentage of total gross loans and advances to customers:		
— between 3 and 6 months	**0.34%**	0.47%
— between 6 and 12 months	**0.50%**	0.63%
— over 12 months	**1.86%**	1.93%
Total	**2.70%**	3.03%

The definition of overdue loans and advances to customers is set out in the unaudited supplementary financial information (f).

There were no overdue loans and advances to financial institutions as at 31 December 2006 and 2005.

(h) RESCHEDULED LOANS AND ADVANCES TO CUSTOMERS

	Group			
	2006	**% of total loans and advances**	2005	% of total loans and advances
Rescheduled loans and advances to customers	**3,384**	**0.12%**	5,012	0.20%
Less:				
— rescheduled loans and advances to customers but overdue more than 90 days	**(1,929)**	**(0.07%)**	(1,319)	(0.05%)
Rescheduled loans and advances to customers overdue less than 90 days	**1,455**	**0.05%**	3,693	0.15%

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Legal name in English:	China Construction Bank Corporation
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Authorised representatives:	Zhang Jianguo Zhao Lin
Secretary to the Board:	Zhang Long[1]
Company secretary:	Ha Yiu Fai
Qualified accountant:	Yuen Yiu Leung
Independent auditors:	KPMG
Compliance advisors:	China International Capital Corporation (Hong Kong) Limited Morgan Stanley Dean Witter Asia Limited
Legal advisor as to Hong Kong law:	Freshfields Bruckhaus Deringer
Listing venue of H shares:	The Stock Exchange of Hong Kong Limited
H share registrar:	Computershare Hong Kong Investor Services Limited Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong

[1] The appointment is subject to approval of the CBRC.

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