中国建设银行
China Construction Bank

China Construction Bank Corporation

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

Interim Report 2007 中期報告

Stock Code: 939

Provide better services
to our customers,

create more value for our shareholders,

build a wide career
development platform
for our employees,

and take up full
corporate social responsibilities
to the society

Always standing in the forefront
of China's economic
modernisation, and becoming
a world class bank

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Net profit

RMB 34,255 million

↑ 47.50%

Annualised return on average equity

20.88% ↑ 5.21%

Net interest margin

3.11% ↑ 0.41%

Cost-to-income ratio

37.35% ↓ 4.30%

Financial Highlights

The table below sets forth the consolidated financial summary of China Construction Bank Corporation (the "Bank") and its subsidiaries (collectively the "Group").

	Six months ended 30 June 2007	Six months ended 30 June 2006
For the period *(In millions of RMB)*		
Operating income	**99,786**	70,864
Profit before tax	**50,542**	32,814
Net profit	**34,255**	23,223
Net profit attributable to shareholders of the Bank	**34,221**	23,223
Per share *(In RMB)*		
Net asset value per share	**1.45**	1.36
Earnings per share	**0.15**	0.10
Interim cash dividend per share approved before the balance sheet date	**0.067**	—
Special cash dividend per share approved after the balance sheet date	**0.072716**	—
Profitability indicators *(%)*		
Annualised return on average assets[1]	**1.18**	0.95
Annualised return on average equity[2]	**20.88**	15.67
Net interest spread	**3.01**	2.59
Net interest margin	**3.11**	2.70
Net fee and commission income to operating income	**12.69**	8.85
Cost-to-income ratio	**37.35**	41.65

1. *Calculated by dividing net profit by the average of total assets as at the beginning and end of the period and then multiplying two.*

2. *Calculated by dividing net profit attributable to shareholders of the Bank by the average of total equity attributable to shareholders of the Bank as at the beginning and end of the period and then multiplying two.*

	30 June 2007	31 December 2006	30 June 2006
As at period end *(In millions of RMB)*			
Total equity attributable to shareholders of the Bank	**325,609**	330,109	305,139
Issued and paid-up capital	**224,689**	224,689	224,689
Total assets	**6,117,791**	5,448,511	5,166,242
Capital adequacy indicators *(%)*			
Core capital adequacy ratio[3]	**9.43**	9.92	10.77
Capital adequacy ratio[3]	**11.34**	12.11	13.15
Total equity to total assets	**5.32**	6.06	5.91
Asset quality indicators *(%)*			
Non-performing loan ratio	**2.95**	3.29	3.51
Allowances to non-performing loans	**90.67**	82.24	71.37
Allowances to total loans	**2.68**	2.70	2.50

3. *Calculated in accordance with the guidelines issued by the China Banking Regulatory Commission (the "CBRC").*

We have included in this report certain forward-looking statements with respect to the financial position, operating results and business development of the Group. We use words such as "expect", "anticipate", "plan", "believe", "will", "may" and similar expressions to identify forward-looking statements. These statements are based on current plans, estimates and projections. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we can give no assurance that those expectations will prove to have been correct, and you are cautioned not to place undue reliance on such statements. Readers are cautioned that a number of factors could cause actual results to differ, in some instances materially, from those anticipated or implied in any forward-looking statements. These factors include, among others: changes in general economic conditions in the markets in which the Group operates, changes in the government's adjustment and control policies and in laws and regulations, and factors specific to the Group.

Chairman's Statement

During the first half of 2007, China's economy continued to develop rapidly and the financial market enjoyed robust growth. To achieve sustainable growth of the economy, the government introduced a series of macroeconomic adjustment and control measures. We paid close attention to the development of macroeconomy and financial market, and made timely adjustment and improvement to our operational strategies.

The Bank continued to push forward its strategic transformation actively, and implement its development strategy which emphasizes on both the wholesale and retail businesses, established and emerging businesses, interest and fee-based income as well as domestic and overseas markets. We improved business processes, and promoted branch transformation to enhance service quality and efficiency in full implementation of our customer-focused corporate culture. We strengthened our risk management capabilities and strived to achieve steady development with balanced risk and returns. Strategic cooperation was further deepened, with planned projects progressing smoothly, covering risk management, information technology, retail business and product management. The proposed public offering of A-shares will provide us with a new capital platform, support the sustainable business growth, and enable the domestic and overseas investors to share together the returns on our growth.

In the first half of the year, we achieved sound development in all lines of businesses. We have remained the largest provider of personal loans and residential mortgage loans among domestic banks, and maintained leading positions in our established businesses such as infrastructure loans. We have also obtained good results in marketing to institutional and high-net-worth personal customers. The number of credit cards issued increased substantially with the market share rising steadily. The strengthened collaboration between domestic and overseas branches accelerated the development of our overseas business as well as domestic business. Progress has been made in the establishment of new overseas operations, and branches and resources in Hong Kong have also been consolidated as scheduled.

For the first half of 2007, the Group recorded a net profit of RMB34,255 million, representing an increase of 47.50% compared with the same period in 2006. Earnings per share were RMB0.15, while the annualised return on average assets and the annualised return on average equity were 1.18% and 20.88% respectively. Overall asset quality has shown steady improvement with the non-performing loan ratio dropping to 2.95%. Our board of directors (the "Board") has resolved to declare an interim dividend and a special cash dividend totalling approximately RMB0.14 per share.

With support and recognition from the wide business community, the Bank received numbers of awards during the first half of 2007. The Bank was named "Best Emerging Market Banks in Asia — Best Bank in China 2007" by *Global Finance* magazine, awarded "2007 Best Corporate Governance Enterprise" by *The Asset* magazine, and honoured with "Excellence in Mortgage Business in China" by *The Asian Banker*. We also garnered the "2006 Most Influential China Company listed overseas" in the "2006 Impact China — series of listed companies" sponsored by *Shanghai Securities News* and academically supported by the Guanghua School of Management at Peking University. In the "2006-2007 Best Customer Service in China" assessment programme jointly run by the China Information Industry Association and Asia Customer Service Association and other entities, the Bank succeeded in snapping up several major awards including "Best Customer Service in China" and "Best Customer Service in China: Outstanding Contribution Honorary Award".

Whilst achieving strong operating results, the Bank is also committed to fulfilling its social responsibilities as a good corporate citizen, and pays close attention to the demands of all its stakeholders, including the shareholders, employees, customers, business partners, government and the public. The Bank, as the official bank and games partner, sponsored The 2007 Special Olympics World Summer Games in Shanghai and launched a series of charity events to collect donations for the Games. The Community Chest of Hong Kong awarded the Bank a Diamond Award in recognition of its dedicated donations to the Hong Kong "Corporate and Employee Contribution Programme".

Finally, on behalf of the Board, I would like to express our sincere gratitude to the board of supervisors, the management, and all of our staff for their hard work and contribution, in particular the valuable contributions from Mr. Zhu Zhenmin, Mr. Jing Xuecheng and Mr. Yashiro Masamoto who left office this year. I would also like to give a warm welcome to Mr. Wang Yong, and Ms. Li Xiaoling who are joining the Board. We firmly believe that, with the concerted efforts of the Board, the board of supervisors, the management and all our staff, the Bank will provide better services to our customers, create more value for our shareholders, build a wide career development platform for our employees, and take up full corporate social responsibilities to the society, and achieve its strategic vision of "always standing in the forefront of China's economic modernisation, and becoming a world class bank".

Chairman
24 August 2007

President's Report

I am pleased to report that, with the concerted efforts of all our staff, the Group achieved strong operating results in the first half of 2007 in line with the development strategies and operating objectives set by the Board. The enhanced ability to expand businesses, control risks and increase earnings, and the progress with our infrastructure improvements that is wholesome to the long-term development of the Bank, laid a solid ground to beat the operating targets for the year.

FINANCIAL HIGHLIGHTS

In the first half of 2007, the Group achieved pre-tax profit of RMB50,542 million, representing an increase of RMB17,728 million or 54.03% over the same period last year. Due to the revised enterprise income tax rate effective in 2008, we adjusted the brought forward deferred tax items and recognised newly derived deferred tax items based on the reduced income tax rate of 25%, resulting in an increase of RMB974 million in current income tax expense and a lower growth rate of net profit than that of profit before tax.

Our strategy of operating transformation and business structure adjustment has proved fruitful, and the rapid growth of domestic economy and revitalisation of capital market has provided the Group with a good business opportunity. In the first half of 2007, the Group recorded an operating income of RMB99,786 million with an increase of 40.81% over the same period last year, in which the net interest income rose by 36.65% to RMB89,213 million, and the net fee and commission income rose by 101.79% to RMB12,660 million. The proportion of net fee and commission income to operating income rose to 12.69%, further improving our income structure.

Cost efficiency continued to improve. The cost-to-income ratio further reduced to 37.35%, as the increase of 26.29% in operating expense was lower than the growth of operating income. Staff costs increased by 26.57% compared to the same period last year, largely because of higher performance-related salaries following improved operating results, as well as the higher standard of supplementary retirement benefits.

The Group's assets and liabilities maintained steady growth with the total assets exceeding RMB6 trillion. As at 30 June 2007, total assets were RMB6,117,791 million, 12.28% higher than at the end of last year, in which loans and advances to customers rose by 10.16% to RMB3,165,567 million. Total liabilities were RMB5,792,053 million, 13.16% higher than at the end of last year. The growth rate of deposits from customers slowed down to 6.93%, as a result of the booming domestic capital market and the mushrooming mutual funds and wealth management products. However, the Bank seized the opportunities to gain more inter-bank deposits at a lower cost, leading to an increase of

125.19% in the amounts due to banks and non-bank financial institutions, which effectively replenished our source of funding and brought about a change in the structure of our liabilities. As at 30 June 2007, the loan-to-deposit ratio was maintained at a fairly reasonable level of 62.71%.

The asset quality continued to improve as a result of effective risk control measures. As at 30 June 2007, the balance of non-performing loans fell by RMB989 million to RMB93,410 million, and the non-performing loan ratio dropped by 0.34 percentage points to 2.95% compared with the end of 2006. The ratio of allowances for impairment losses to non-performing loans increased to 90.67% from 82.24% at the end of last year, reflecting the adequacy of allowances for impairment losses.

BUSINESS REVIEW

As stated in the Annual Report 2006, we would strengthen our advantages in established businesses and expedite our business transformation in 2007. In the first half of the year, we followed this strategy and achieved fruitful results.

- *Continued improvement in the credit and customer structure.* The medium to long-term loans, in which we have established advantage, increased by 11.61% to RMB1,466,834 million. Infrastructure loans grew by 11.98%, with its increase accounting for 43.47% of the increase in the corporate loans. We secured our leading position in the domestic personal banking market, fulfilling our promise to the market and investors. As at 30 June 2007, the personal loans were RMB680,571 million, a rise of 16.32% compared with the end of last year. The proportion of personal loans in the gross loans and advances to customers reached 21.50%, with its increase accounting for 32.71% of that in gross loans and advances. Loans to small businesses to which we attach great importance, grew by 15.24% over the end of last year to RMB222,357 million. The Bank has been maintaining strict lending criteria and high standard for credit approval, and the corporate loans granted to customers with internal credit ratings of A or above occupied 85.96% of total corporate loans, with an increase of 2.39 percentage points over the end of last year.

- *Big leap in capital market related businesses and agency businesses.* In the first half of 2007, agency sales of 115 mutual funds recorded a 778% increase over the same period last year to RMB313,746 million, with the fee and commission income from fund agency business rising by RMB3,777 million, accounting for 58.21% of the increase of the total fee and commission income. A total of 60 batches of RMB and foreign currency wealth management products were sold with an amount of RMB33,442 million. The net asset under custody amounted to RMB499,380 million, up 88.28% compared with the end of last year. The Bank made great progress in marketing to targeted institutional customers, and established cooperation relationships with 87.96% of domestic securities companies on the independent custodial services for stock trading settlement funds.

- *Outstanding performance in the financial market business.* As a result of the improvement in the management of investment portfolio, together with rapidly growing customer-driven business, in the first half of 2007, operating income from treasury operations reached RMB12,467 million, an increase of 39.05% compared with the same period last year. The yield on investments in debt securities was 3.16%, an increase of 32 basis points over the same period last year.

- *Rapid growth in international business and smooth progress in overseas expansion.* In the first half of 2007, the international settlement volume amounted to US$127,366 million, with an increase of 41.77% compared with the same period last year. The volume of customer-driven foreign exchange transaction reached US$81,036 million, an increase of 48.55% compared with the same period last year. Total assets of overseas operations reached RMB100,001 million at the end of June 2007, and the profit before tax for the first half of the year reached RMB943 million. The Bank obtained approval from the CBRC and the

Australian Prudential Regulation Authority to open a representative office in Sydney, Australia, and approval from the CBRC to open a branch in Ho Chi Minh City, Vietnam. The Bank has largely completed the consolidation of network and business resources in Hong Kong. In the first half of the year, the total assets of China Construction Bank (Asia) Corporation Limited ("CCB (Asia)") increased to HK$40,933 million, and a profit before tax of HK$394 million was recorded.

OPERATING MANAGEMENT

The above operating results and business development could not have been possible without the continuous improvement of the Bank's operations and management. "To grow a tall tree, one must strengthen its roots." — the Bank's management is strongly committed to strengthening our infrastructure in areas such as risk management, channels management, information technology (IT) and human resources management to ensure our sustainable and healthy development.

- *Risk management and internal control techniques and measures continued to improve.* In the first half of 2007, we continued to push forward the parallel operational structure in credit business, and improve the risk management processes. We applied credit limits control by industry, and established corresponding risk monitoring and early warning mechanism to mitigate the industry-specific risk. The market risk and operational risk management processes continued to improve, and pilot projects for the self-assessment of operational risk and internal control were conducted in certain branches, establishing a proactive approach to risk identification and subsequent improvements. In addition, a front desk operation monitoring system has also been implemented to identify doubtful or error transactions on a real-time basis. The planning for the implementation of the New Basel Capital Accord and the development of the internal rating system (phase 2) has been progressing smoothly.

- *Channels management was strengthened with the smooth progress of branch transformation.* The Bank began to promote retail branch transformation, one of the outcomes of collaboration with Bank of America Corporation ("BAC"), across the bank in 2007. By the end of June 2007, 1,320 branches had been transformed, resulting in significant improvement in the product sales and customer satisfaction at these branches. At the end of June 2007, we had 1,021 personal finance centres, 21 wealth management centres and 2,213 self-service banking centres, significantly higher than the numbers at the end of last year. The number of domestic retail branches that can handle foreign currency deposits and foreign exchange purchases and sales increased to 8,652 and 6,428 respectively. At the end of June 2007, we had a total of 56.83 million electronic banking customers, a rise of 13.54 million compared with the end of last year. The volume of electronic banking transactions reached 781 million for the period, with a total transaction amount of RMB31.83 trillion.

- *IT support to risk management and business development was strengthened.* In the first half of 2007, projects including the centralisation of IT management functions and business continuity planning progressed smoothly. A new personal lending system, the centralisation of the customer service centres, and the enterprise resource planning financial (ERPF) system were also implemented successfully in many branches. A new trade finance system was launched throughout the Bank to consolidate related business data. The personal wealth management system was implemented with full capabilities, supporting the issuance of numerous wealth management products.

- *Professional teams were strengthened, and further improvements were made to the remuneration and incentive mechanism to encourage value creation.* At the end of June 2007, the Bank had 295,299 staff members, with excellent professional teams of relationship managers, risk managers and internal auditors. The Bank actively shaped itself into a learning organization and hosted 11,489 training sessions in the first half of the year. We also implemented an employee stock incentive plan, which sources from the combination of our employees' voluntary subscriptions and performance-related bonuses, with an aim to tie the interests of the employees and those of the shareholders together.

STRATEGIC COOPERATION

In 2007, the Bank set up and implemented a total of 20 strategic assistance projects covering risk management, IT, retail business, product management, and human resources management with the BAC, including rolling out the outcomes of retail branch transformation, new process in personal loan centres and the improvement of call centres across the Bank. The collaborative projects expanded from retail business to many major areas, with the number of projects up by 43% compared with the previous year. These projects would play an important role in the improvement of the management and operations in the Bank's key business areas. The two parties also shared experience in areas such as global treasury services, financial management, operational management, risk management, internal auditing, investor relations management, and corporate culture, and cooperated in areas such as trade finance, bond market and treasury operations.

The Bank also partnered with Fullerton Financial Holdings Pte. Ltd ("Fullerton Financial", formerly known as "Asia Financial Holdings Pte. Limited") in experience sharing and training, which focused on major areas covering small and medium-sized enterprise businesses, asset and liability management, risk management, wealth management, treasury management, finance and planning, and information disclosure.

LOOKING AHEAD

In the second half of 2007, China's national economy and social development will remain positive. However, the trend of economic growth turning from speedy to overheated will be more obvious. We anticipate that the government will further fine-tune and execute the macroeconomic control policies and strengthen measures to adjust the structure of economic sectors. During this process, banks would face challenges in enhancing operating management and preventing risks. Meanwhile, the factors such as greater volatility in capital markets, higher benchmark deposit rates and lower individual income tax rate on deposits interest, which all have direct relationships with banks' deposit business and agency businesses such as sales of mutual funds, would affect the growth of our future operating income and pre-tax profit.

Accordingly, we will closely monitor and keep track of policy changes and market movements to enhance our ability to foresee and identify new market opportunities and potential risks, and to adopt appropriate measures in advance. We will continue to drive business transformation and structural adjustments, and expedite the development of personal banking business and small enterprise business while continuing to strengthen our advantages in the established businesses. We will further improve our customer structure by choosing the best possible prospective customers. To improve our income structure, we will accelerate the development of financial products and businesses that are conducive to the business transformation. The collaboration between domestic and overseas branches will be strengthened to support overseas development. We will continuously improve the infrastructure of operational management and incentive mechanism, and strengthen our efforts in product innovation. The continuous improvement in risk management processes, tools and methods will also help to enhance our risk management level.

The Bank's development strategy is clearly defined and well implemented and the bank has a strong edge over its competitors. With the world economic development and the strong economic growth in China, we will continue our journey of reform and innovation with market foresight and fast response, to realise the strategic vision of "always standing in the forefront of China's economic modernisation, and becoming a world class bank".

張建國

Vice Chairman, Executive Director and President
24 August 2007

Management Discussion and Analysis

In the first half of 2007, amid the strengthening macroeconomic adjustment and control measures in domestic market, the Group capitalised on the opportunities brought about by China's robust economy and the booming capital market, and achieved steady growth in both assets and liabilities and notable improvement in profitability by actively expanding its businesses while strengthening its internal management and risk controls.

- The operating income was RMB99,786 million, an increase of 40.81% compared to the same period last year. Net interest income grew by 36.65% as a result of business growth and a larger net interest spread; net fee and commission income rose by 101.79%, largely attributable to the substantial growth of fees from securities agency services.
- Net profit reached RMB34,255 million, representing an increase of 47.50% compared with the same period in 2006.
- Annualised return on average assets was 1.18% and annualised return on average equity was 20.88%, an increase of 0.23 and 5.21 percentage points respectively over the same period last year.
- Earnings per share rose by RMB0.05 to RMB0.15 over the same period last year.
- As at 30 June 2007, the Group's total assets amounted to RMB6,117,791 million and total liabilities amounted to RMB5,792,053 million, representing an increase of 12.28% and 13.16% respectively over the end of last year.
- Gross loans and advances to customers amounted to RMB3,165,567 million, an increase of 10.16% over the end of last year. The rise of loans and advances was largely driven by the strong growth of infrastructure loans, personal loans and loans to small businesses[1], which altogether accounted for RMB210,143 million, or 71.98% of the increase of gross loans and advances.

1. *Small businesses represent corporate customers with sales less than RMB100 million or total assets less than RMB120 million (the specific classification criteria vary according to business sector).*

- Non-performing loan ("NPL") ratio was 2.95%, a decrease of 0.34 percentage points over the end of last year, mainly due to the improvement of credit risk monitoring, stringent lending criteria and effective write-offs and disposals of non-performing loans.

- Capital adequacy ratio was 11.34%, with the core capital adequacy ratio at 9.43%, 0.77 and 0.49 percentage points lower than the end of last year respectively. This was largely due to the expansion of on-balance sheet assets and off-balance sheet businesses, which led to an increase in risk-weighted assets.

INCOME STATEMENT ANALYSIS

In the first half of 2007, the Group recorded profit before tax of RMB50,542 million, an increase of RMB17,728 million, or 54.03% over the same period last year. The increase was mainly attributable to rises in net interest income and net fee and commission income, which together brought about a 40.81% increase in operating income, outweighing the 26.29% increase in operating expenses and the 40.25% increase in provisions for impairment losses compared with the same period last year. A net profit of RMB34,255 million was recorded, representing an increase of RMB11,032 million or 47.50% over the same period last year. As the new enterprise income tax rate will become effective in 2008, the Group adjusted the brought forward deferred tax items and recognised newly derived deferred tax items based on the reduced income tax rate of 25%. As a result, the income tax expense for the current period increased by RMB974 million, causing the increase in net profit to be lower than that in profit before tax.

Apart from the efforts of the Group to actively expand various businesses, the significant increase in profit before tax in the first half of 2007 was also attributable to external factors such as the adjustment of benchmark interest rates for loans and deposits by the People's Bank of China (the "PBC"), customers' willingness to withdraw their time deposits at an earlier date, and to make more demand deposits amid the soaring domestic capital market, and the significant increase in the sales of mutual funds. In the second half of the year, with a more volatile capital market, the increase in interest rates for deposits, alongside the decrease in individual income tax rate on the interest generated from deposits, more savings deposits may be placed with banks, and the fund agency business may develop at a slower pace, resulting in a stable growth of the Group's operating income and profit before tax for the second half of the year.

Net Interest Income

In the first half of 2007, the Group's net interest income was RMB89,213 million, an increase of RMB23,928 million or 36.65% over the same period last year.

The following table shows the Group's average balances of assets and liabilities, related interest income or expense, and average annualised yields or costs during the respective periods.

(In millions of RMB, except percentages)	**Six months ended 30 June 2007**			Six months ended 30 June 2006		
	Average balance	**Interest income/ expense**	**Average annualised yield/cost (%)**	Average balance	Interest income/ expense	Average annualised yield/cost (%)
Assets						
Gross loans and advances to customers	**3,034,621**	**92,275**	**6.08**	2,680,177	71,618	5.34
Investments in debt securities	**2,038,082**	**32,224**	**3.16**	1,597,707	22,716	2.84
Balances with central banks	**576,699**	**4,923**	**1.71**	403,968	3,366	1.67
Amounts due from banks and non-bank financial institutions	**93,803**	**1,475**	**3.14**	154,559	2,776	3.59
Total interest-earning assets	**5,743,205**	**130,897**	**4.56**	4,836,411	100,476	4.15
Total allowances for impairment losses	**(82,029)**			(68,191)		
Non-interest-earning assets	**163,617**			146,453		
Total assets	**5,824,793**	**130,897**		4,914,673	100,476	
Liabilities						
Deposits from customers	**4,893,269**	**36,375**	**1.49**	4,278,608	31,968	1.49
Amounts due to banks and non-bank financial institutions	**424,559**	**4,167**	**1.96**	183,237	2,169	2.37
Subordinated bonds issued	**39,936**	**954**	**4.78**	39,909	930	4.66
Other interest-bearing liabilities	**9,961**	**188**	**3.77**	5,967	124	4.16
Total interest-bearing liabilities	**5,367,725**	**41,684**	**1.55**	4,507,721	35,191	1.56
Non-interest-bearing liabilities	**124,038**			89,014		
Total liabilities	**5,491,763**	**41,684**		4,596,735	35,191	
Net interest income		**89,213**			65,285	
Net interest spread			**3.01**			2.59
Net interest margin			**3.11**			2.70

Higher yields on gross loans and advances to customers, investments in debt securities and balances with central banks over the same period last year were partly offset by the decrease in the yield on the amounts due from banks and non-bank financial institutions and the reduced proportion of average balance of loans and advances to customers in total interest-earning assets, resulting in a rise of 41 basis points in the overall yield on interest-earning assets over the same period last year to 4.56%.

Compared with the same period last year, the cost of deposits from customers remained stable, and the cost of subordinated bonds issued rose. These factors were offset by the reduction in the cost of the amounts due to banks and non-bank financial institutions and the greater proportion of its average balance in interest-bearing liabilities, leading to a reduction of one basis point in the overall cost of interest-bearing liabilities compared with the same period last year.

Average yield for interest-earning assets rose while the average cost for interest-bearing liabilities fell, and as a result, net interest spread rose by 42 basis points to 3.01% compared with the same period last year. The net interest income for the period increased by 36.65%, higher than the 18.75% growth of total interest-earning assets, thus causing the net interest margin to move up by 41 basis points to 3.11%.

The following table shows the effect of the movement of the average balances and the average interest rates of the Group's assets and liabilities on the change in interest income or expense for the first half of 2007 versus the first half of 2006.

(In millions of RMB)	Change in interest income/ expense due to volume movement[1]	Change in interest income/ expense due to interest rates movement	Change in interest income/ expense
Assets			
Gross loans and advances to customers	10,740	9,917	20,657
Investments in debt securities	6,951	2,557	9,508
Balances with central banks	1,476	81	1,557
Amounts due from banks and non-bank financial institutions	(953)	(348)	(1,301)
Change in interest income	18,214	12,207	30,421
Liabilities			
Deposits from customers	4,407	—	4,407
Amounts due to banks and non-bank financial institutions	2,374	(376)	1,998
Subordinated bonds issued	—	24	24
Other interest-bearing liabilities	76	(12)	64
Change in interest expense	6,857	(364)	6,493
Change in net interest income	**11,357**	**12,571**	**23,928**

1. *Changes caused by both average balances and average interest rates have been allocated to change in interest income or expense due to volume movement.*

The net interest income increased by RMB23,928 million, in which RMB11,357 million was due to the movement of the average balances of assets and liabilities, and RMB12,571 million was due to the movement of average yields or costs, i.e. the contributions to the increase of net interest income from volume movement and from interest rates movement were 47.46% and 52.54% respectively.

Interest income

The Group's interest income in the first half of 2007 was RMB130,897 million, an increase of RMB30,421 million or 30.28% over the same period last year. This was largely attributable to the increase in the balances of and average 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, interest income and average annualised yield of each component of loans and advances to customers.

(In millions of RMB, except percentages)	**Six months ended 30 June 2007**			Six months ended 30 June 2006		
	Average balance	**Interest income**	**Average annualised yield (%)**	Average balance	Interest income	Average annualised yield (%)
Corporate loans	**2,157,657**	**68,540**	**6.35**	1,894,568	54,362	5.74
Personal loans	**633,716**	**18,912**	**5.97**	480,597	13,453	5.60
Discounted bills	**165,374**	**2,657**	**3.21**	263,066	2,824	2.15
Operations outside Mainland China	**77,874**	**2,166**	**5.56**	41,946	979	4.67
Loans and advances to customers	**3,034,621**	**92,275**	**6.08**	2,680,177	71,618	5.34

Interest income from loans and advances to customers increased to RMB92,275 million by RMB20,657 million or 28.84% over the same period last year, mainly as a result of the rapid expansion of various lending businesses other than discounted bills, and an increase in the average yield on loans. The increase in the average yield on loans and advances to customers over the same period last year was largely due to the following factors: As the PBC raised the benchmark lending rates four times since 2006 and the Group continued to enhance its product-pricing abilities, the average yields on corporate loans, personal loans and discounted bills increased by 61, 37 and 106 basis points respectively over the same period last year; and there was an increase of 89 basis points in the average yield on operations outside Mainland China because of increase in the market interest rates of US dollars and other major currencies. Meanwhile, the decrease in the proportion of the average balance of discounted bills, which had a lower average yield, and the increase in the proportion of average balances of corporate loans and personal loans in that of total loans, also helped to push up the average yield on loans and advances to customers.

Interest income from investments in debt securities

Interest income from investments in debt securities was RMB32,224 million, representing an increase of RMB9,508 million or 41.86% over the same period last year. In this amount, the interest income from investment debt securities was RMB32,091 million, and that from financial assets at fair value through profit and loss was RMB133 million. The increase in interest income from investments in debt securities was mainly attributable to the increase of 27.56% in the average balance of investments in debt securities, as well as the rise in the yields on both RMB and foreign currency-denominated debt securities investments. The average yield on investments in debt securities reached 3.16%, an increase of 32 basis points compared with the same period last year.

Interest income from balances with central banks

Interest income from balances with central banks amounted to RMB4,923 million, a rise of 46.26% over the same period last year. The rise was mainly because the average balance of the statutory deposit reserve increased by 56.39% as compared with the same period last year, as the PBC lifted the reserve requirement ratio eight times consecutively since the second half of 2006. In addition, while maintaining adequate liquidity, the Group managed to keep the surplus deposit reserve, which had a lower yield, at a relatively low level. The average surplus deposit reserve ratio dropped by 11 basis points over the same period last year, which also contributed 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 decreased to RMB1,475 million by RMB1,301 million, or 46.87% over the same period last year. This was mainly due to the Group's proactive efforts to adjust its asset structure and the decrease of approximately RMB90 billion in the average balance of money market placements denominated in foreign currencies (mainly in US dollars) over the same period last year.

Interest expense

In the first half of 2007, interest expense amounted to RMB41,684 million, an increase of RMB6,493 million or 18.45% over the same period last year. This was primarily due to an increase in the average balance of deposits from customers.

Interest expense on deposits from customers

Interest expense on deposits from customers was RMB36,375 million, an increase of RMB4,407 million or 13.79% over the same period last year, mainly as a result of the increase in the average balance of deposits from customers. After the PBC raised the benchmark interest rates for deposits in the second half of 2006, the cost for deposits rose remarkably. Based on this trend, the cost of deposits should have continued to rise after the PBC raised the benchmark deposit rates twice in the first half of 2007, but it turned out that the average cost for deposits from customers remained stable compared with the same period last year, and eight basis points lower than in the second half of 2006. The reasons are as follows: Owing to the boom of capital market, some customers chose to withdraw their time deposits at an earlier date to invest in the capital market, leading to a substantial decrease in the cost of deposits. Meanwhile, a portion of time deposits were converted to demand deposits. The proportion of average balance of time deposits in that of deposits from customers fell by 2.39 and 1.85 percentage points respectively, compared with the first half of 2006 and the year of 2006. Moreover, the duration of time deposits became shorter. The above structural changes in deposits also pulled down the funding cost of deposits. These particular factors are closely related to the capital market condition in the first half of the year, and may change over time. If the stock market becomes more volatile in the second half of the year, the above factors are not expected to sustain, which may lead to a higher cost of deposits from customers than in the first half of the year.

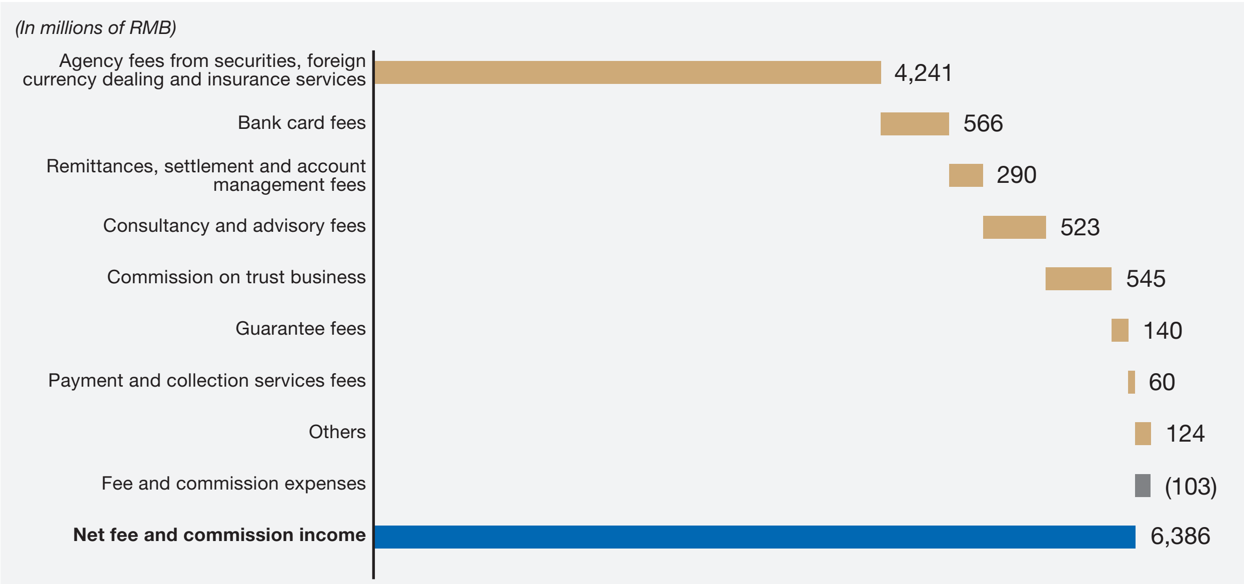
Interest expense on amounts due to banks and non-bank financial institutions

Interest expense on amounts due to banks and non-bank financial institutions was RMB4,167 million, a rise of 92.12% over the same period last year, largely due to the increase in the average balance of amounts due to banks and non-bank financial institutions. Cost of amounts due to banks and non-bank financial institutions fell 41 basis points over the same period last year, primarily because the Group took measures to manage its liabilities, and the proportion of the average balance of demand deposits in amounts due to banks and non-bank financial institutions increased by 17 percentage points to 92% over the same period last year.

Net Fee and Commission Income

(In millions of RMB)	**Six months ended 30 June 2007**	Six months ended 30 June 2006
Fee and Commission Income	**13,271**	6,782
Agency fees from securities, foreign currency dealing and insurance services	**5,864**	1,623
Bank card fees	**2,299**	1,733
Remittances, settlement and account management fees	**1,579**	1,289
Consultancy and advisory fees	**1,366**	843
Commission on trust business	**1,219**	674
Guarantee fees	**417**	277
Payment and collection services fees	**182**	122
Others	**345**	221
Fee and commission expenses	**(611)**	(508)
Net fee and commission income	**12,660**	6,274

Composition of the increase in net fee and commission income



In the first half of 2007, net fee and commission income of RMB12,660 million was recorded, with an increase of RMB6,386 million or 101.79% over the same period last year. The ratio of net fee and commission income to operating income further improved by 3.84 percentage points to 12.69% over the same period last year. By exploiting the competitive edge of its distribution network, the Group provided a wide variety of fee-based business products and services to its customers. Capitalising on the excellent market opportunities, the Group achieved sound development in the fee and commission based businesses by improving the performance measurement and incentive system, and devoting more resources to them.

In the first half of the year, the fee and commission income arising from the fund agency business, which was closely related to the boom of the domestic stock market, soared by RMB3,777 million, or 2,622.92% over the first half of 2006, accounting for 58.21% of the increase in the total fee and commission income. After excluding this increase, the net fee and commission income increased by 41.58%. The growth of the income from fund agency business may stabilise if the stock market and fund sales cool down in the second half of the year.

Agency fees from securities, foreign currency dealing and insurance services rose by RMB4,241 million or 261.31%, mostly driven by the growth of income from fund agency business.

Bank card fees recorded a rise of RMB566 million or 32.66%, largely due to a rise in the number of bank cards issued and substantial increases in spending through bank cards and transaction amount through self-service facilities. In particular, the total spending amount of bank cards reached RMB208.4 billion, up 74.10% over the same period last year.

Remittances, settlement and account management fees rose by RMB290 million or 22.50%, mainly as a result of the rapid growth of the corporate account services and international settlement business.

Consultancy and advisory fees increased by RMB523 million or 62.04%, mainly due to the rapid increases in the project pricing advisory service and financial advisory service, in which income from project pricing advisory service grew by 65.75%.

Commission on trust business rose by RMB545 million or 80.86%, largely as a result of a significant increase of 246.13% in the income from custodial services for securities investment funds, setting our leading position in this area in the PRC market.

Guarantee fees increased by RMB140 million or 50.54%, and in particular the income from international guarantee services grew rapidly by 118.77%.

Other Net Operating Loss

In the first half of 2007, the Group recorded other net operating loss of RMB2,959 million comprising the following components: a net foreign exchange loss of RMB3,568 million mainly due to the appreciation of the RMB and the cost of derivatives; a net gain of RMB29 million on the disposal of property and equipment; a net income of RMB89 million from sales of repossessed assets; and other income of RMB491 million, which included rents from other entities and individuals, etc.

The specific composition of foreign exchange exposures as at 30 June 2007 and the respective profit and loss for the first half of 2007 are set out below:

(In millions of RMB)	Composition of foreign exchange exposures[1] as at 30 June 2007			Foreign exchange gain/(loss) for six months ended 30 June 2007
	On-balance sheet	Off-balance sheet	Total	
Capital injection of US$22,500 million	**85,655**	**(85,655)**	**—**	**(1,221)**
Exercised foreign exchange option of US$11,250 million				
— hedged foreign currency assets				**(823)**
— foreign exchange option contract for hedging purpose				**453**
Outstanding foreign exchange option of US$11,250 million				
— foreign currency assets hedged by the foreign exchange option	**85,655**		**85,655**	**(2,152)**
— foreign exchange option contract for hedging purpose		**(85,655)**	**(85,655)**	**1,301**
Derivatives	**153,945**	**(153,945)**	**—**	**(1,361)**
Others	**7,465**	**20,806**	**28,271**	**(986)**
Net foreign exchange exposures[2]	**247,065**	**(218,794)**	**28,271**	
Net foreign exchange loss				**(3,568)**

1. *The foreign exchange exposures are expressed in RMB. 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 shown in "Currency Concentrations" of the unaudited supplementary financial information.*

Net foreign exchange loss arising from the capital injection

According to an agreement the Bank entered into with Central SAFE Investments Limited ("Huijin") on 12 January 2005, the Bank purchased an option from Huijin under which the Bank may exchange a maximum of US$22,500 million into RMB with Huijin at a predetermined exchange rate of US$1: RMB8.2769. The option can be exercised in twelve equal monthly instalments in 2007. As at 30 June 2007, the Group had exercised an accumulated amount of US$11,250 million, and US$11,250 million remained outstanding.

In the first half of 2007, the net foreign exchange loss related to the capital injection of US$22,500 million was RMB1,221 million. In this amount, the foreign exchange loss of the hedged assets of US$11,250 million related to the option already exercised was RMB823 million, and the net gain from the exercise of the option was RMB453 million; the foreign exchange loss arising from the US$11,250 million assets related to the outstanding option was RMB2,152 million, and the net gain resulting from the change in fair value of the outstanding option was RMB1,301 million.

Derivatives

To take advantage of broader investment channels of foreign currency funds and higher foreign currency interest rates compared with the RMB interest rates, the Group took the initiative to develop its foreign exchange operations. Meanwhile, the Group engaged in relevant derivatives transactions in order to mitigate the foreign exchange risk involved in these operations. In the first half of 2007, the cost of such derivatives transactions totalled RMB1,361 million.

Other net foreign exchange loss

Other net foreign exchange loss of the Group was RMB986 million, including a net foreign exchange loss of RMB840 million arising from the foreign currency-denominated operating funds held for foreign exchange operations, and a net loss of RMB146 million arising from the revaluation of other foreign exchange exposures.

As the market yields on USD-denominated assets were higher than the yields on RMB-denominated assets, the net foreign exchange loss above has been compensated by the additional interest income arising from the foreign currency assets that are mainly denominated in US dollars.

Operating Expenses

(In millions of RMB, except percentages)	**Six months ended 30 June 2007**	Six months ended 30 June 2006
Staff costs	**18,673**	14,753
Premises and equipment expenses	**6,057**	5,271
Business tax and surcharges	**5,665**	4,172
Other operating expenses	**6,880**	5,320
Total operating expenses	**37,275**	29,516
Cost-to-income ratio	**37.35%**	41.65%

In the first half of 2007, the Group continued to strengthen its cost control, and the cost-to-income ratio was further reduced to 37.35% with improved cost efficiency.

The total operating expenses for the first half of the year increased by RMB7,759 million or 26.29% to RMB37,275 million compared with the same period last year. Staff costs went up by 26.57%, mainly as a result of the increase in the performance-linked salaries with the improvement of operating results, the provision for the employee stock incentive plan, as well as the higher standard of supplementary retirement benefits. Among these, the provision for the employee stock incentive plan was RMB610 million, accounting for 3.27% of the total staff cost. Premises and equipment expenses rose by 14.91% over the first half of 2006, largely due to the increase in the rent and property management expenses, utilities and maintenance costs. Business tax and surcharges rose by 35.79%, as a result of increased taxable income. Other operating expenses grew by 29.32% because the Group continued to strengthen branch transformation and marketing efforts in the first half of the year, leading to the increase in advertising and business development expenses compared to the same period in 2006.

In the second half of the year, the staff costs linked with the operating results and business development may continue to rise with the growth of the operating results and the businesses that are strongly encouraged with incentive policies, leading to the rise of the cost-to-income ratio in the second half compared with the first half of this year. However, the overall cost-to-income ratio will be controlled within the level of 2006.

Provisions for Impairment Losses

(In millions of RMB)	**Six months ended 30 June 2007**	Six months ended 30 June 2006
Loans and advances to customers	**11,648**	8,318
Available-for-sale securities	**87**	27
Held-to-maturity debt securities	**77**	—
Property and equipment	**—**	37
Others	**157**	152
Total provisions for impairment losses	**11,969**	8,534

In the first half of 2007, the Group's provisions for impairment losses totalled RMB11,969 million, an increase of RMB3,435 million over the first half of 2006. Among these, impairment provision for loans and advances to customers rose by RMB3,330 million, while that for other assets rose by RMB105 million to RMB321 million.

Provision for impairment losses on loans and advances to customers

(In millions of RMB)	**Six months ended 30 June 2007**			
	Allowances for loans and advances which are collectively assessed	**Allowances for impaired loans and advances**		**Total**
		which are collectively assessed	**which are individually assessed**	
As at 1 January	**22,133**	**13,930**	**41,570**	**77,633**
Write-offs	**—**	**(74)**	**(3,258)**	**(3,332)**
Transfers out	**—**	**(1)**	**(314)**	**(315)**
Recoveries	**—**	**—**	**47**	**47**
Charge for the period				
— reclassification[1]	**—**	**(6,750)**	**6,750**	**—**
— new impairment allowances charged to income statement	**4,026**	**472**	**8,931**	**13,429**
— impairment allowances released to income statement	**—**	**—**	**(1,781)**	**(1,781)**
Unwinding of discount	**—**	**—**	**(984)**	**(984)**
As at 30 June	**26,159**	**7,577**	**50,961**	**84,697**

1. *As at and prior to 31 December 2006, the impairment allowance for corporate loans and advances graded at substandard was collectively assessed. With effect from 1 January 2007, the Group commenced to individually assess the impairment allowance for corporate loans and advances graded at substandard. Consequently, a reclassification of the opening balance of the collective impairment allowance of the respective loans and advances has been made to the individual impairment allowances.*

During the first half of 2007, the Group's provision for impairment losses on loans and advances to customers was RMB11,648 million, representing an increase of RMB3,330 million. The allowances for impairment losses on loans and advances as at 30 June 2007 was RMB84,697 million, an increase of RMB7,064 million over the end of last year. The ratio of allowances to total loans was 2.68%, two basis points lower than at the end of last year; and the ratio of allowances to NPLs was 90.67%, 8.43 percentage points higher than at the end of last year. The increase in the provisions was mainly because the Group provided more allowances for exposures to certain borrowers in industries involving high energy consumption and high emissions as the government further strengthened macroeconomic control measures on these sectors, which were subject to higher operating costs and credit risks as a result of adjustments in resource prices, and tax and environmental policies.

Income Tax

In the first half of 2007, the Group's income tax increased by RMB6,696 million to RMB16,287 million compared with the same period last year. Besides the growth of pre-tax profit, the rise was also caused by the Group's adjustment of its brought forward deferred tax items and recognition of newly derived deferred tax items based on the reduced income tax rate of 25%, as the new enterprise income tax rate will come into effect in 2008. This resulted in an increase of RMB974 million in the income tax expense for the current period.

As the interest income arising from PRC government bonds was not taxable, the effective tax rate was 32.22% in the first half of 2007, lower than the statutory rate of 33.00%.

BALANCE SHEET ANALYSIS

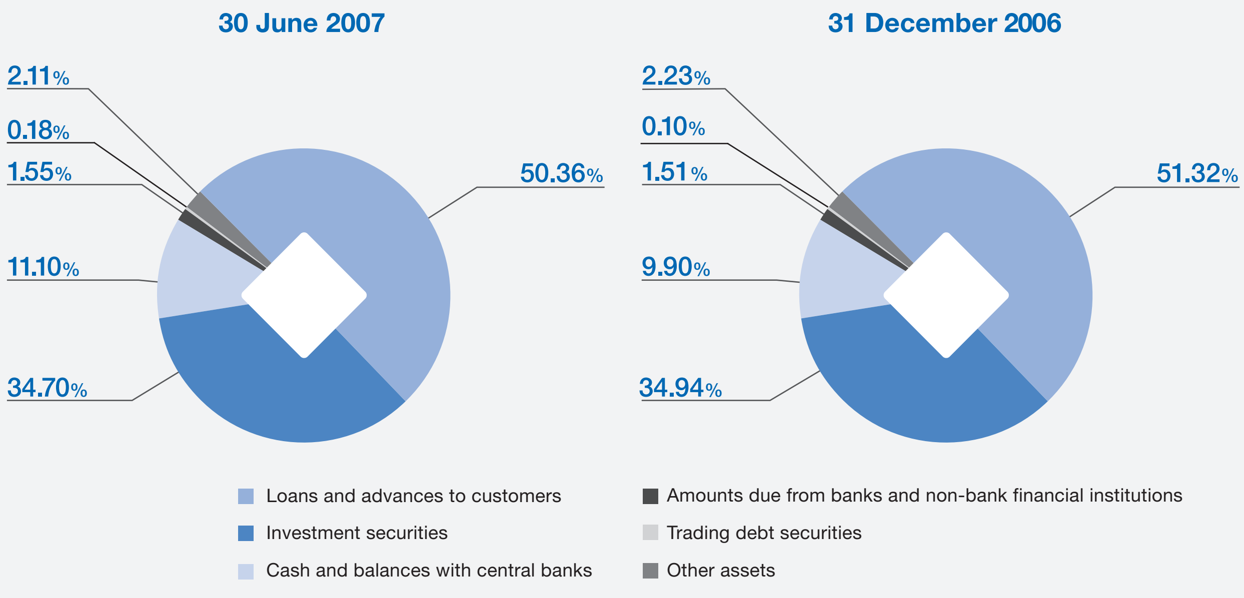
Assets

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

(In millions of RMB, except percentages)	**As at 30 June 2007**		As at 31 December 2006	
	Amount	**% of total**	Amount	% of total
Gross loans and advances to customers	**3,165,567**		2,873,609	
Allowances for impairment losses on loans	**(84,697)**		(77,633)	
Net loans and advances to customers	**3,080,870**	**50.36**	2,795,976	51.32
Investment securities	**2,123,023**	**34.70**	1,903,776	34.94
Cash and balances with central banks	**679,141**	**11.10**	539,673	9.90
Net amounts due from banks and non-bank financial institutions	**94,746**	**1.55**	82,185	1.51
Trading debt securities	**11,018**	**0.18**	5,616	0.10
Other assets[1]	**128,993**	**2.11**	121,285	2.23
Total assets	**6,117,791**	**100.00**	5,448,511	100.00

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

Composition of the assets



As at 30 June 2007, the Group's total assets amounted to RMB6,117,791 million, representing an increase of RMB669,280 million or 12.28% compared with the end of last year. Among these, the growth rates of gross loans and advances to customers and investment securities were 10.16% and 11.52% respectively. As the PBC raised the deposit reserve requirement ratio five times consecutively during the first half of the year, the cash and balances with central banks grew by RMB139,468 million or 25.84% over the end of last year, with its proportion in total assets up by 1.20 percentage points. As at 30 June 2007, the loan to deposit ratio was 62.71%, 1.84 percentage points higher than the end of last year.

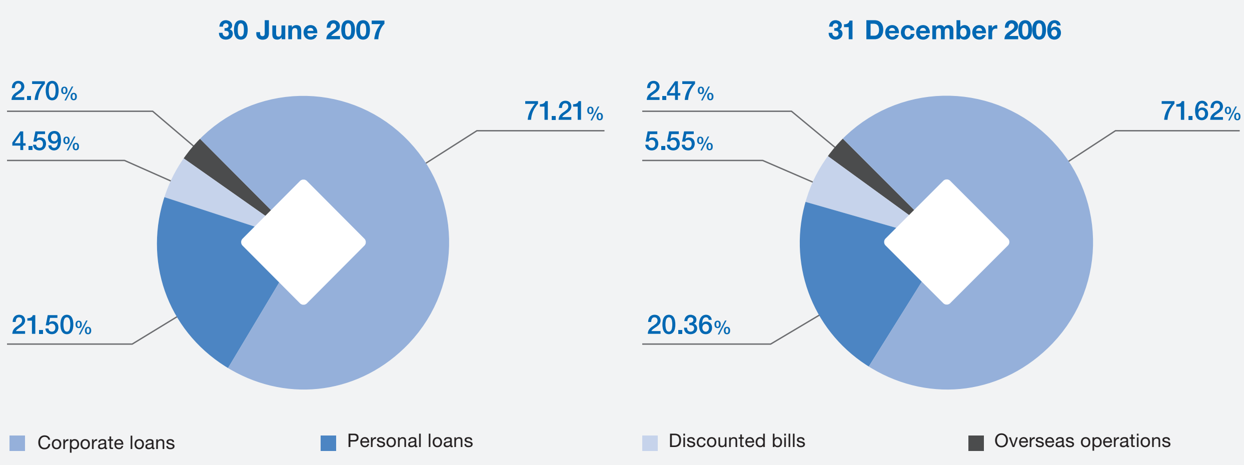
Loans and advances to customers

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

(In millions of RMB, except percentages)	**As at 30 June 2007**		As at 31 December 2006	
	Amount	**% of total**	Amount	% of total
Corporate loans	**2,254,083**	**71.21**	2,057,961	71.62
Short-term loans	**787,249**	**24.87**	743,701	25.88
Medium to long-term loans	**1,466,834**	**46.34**	1,314,260	45.74
Personal loans	**680,571**	**21.50**	585,085	20.36
Residential mortgage loans	**474,037**	**14.97**	428,039	14.90
Personal consumer loans	**79,703**	**2.52**	72,620	2.52
Other loans[1]	**126,831**	**4.01**	84,426	2.94
Discounted bills	**145,403**	**4.59**	159,368	5.55
Operations outside Mainland China	**85,510**	**2.70**	71,195	2.47
Gross loans and advances to customers	**3,165,567**	**100.00**	2,873,609	100.00

1. *Primarily consist of individual commercial property mortgage loans, personal business loans, home equity loans, credit card loans and education loans.*

Composition of loans and advances



As at 30 June 2007, the Group's gross loans and advances to customers were RMB3,165,567 million, an increase of RMB291,958 million or 10.16% compared with the end of last year. Through its active adjustment of credit structure, the Group met the credit demand of key customers, and the strategic products achieved satisfactory growth.

- The corporate loans of RMB2,254,083 million showed a rise of RMB196,122 million, or 9.53% over the end of last year. The infrastructure loans increased by 11.98% to RMB796,713 million compared with the end of 2006, with the increase accounting for 43.47% of the corporate loans' increase. Small business loans on which we attached great importance, rose by RMB29,400 million, or 15.24% over the end of last year. In the face of the surging credit demand of the market, we further optimised the customer structure of corporate loans by selecting the best possible customers and implementing stringent lending criteria, and the loans extended to customers with internal credit ratings of A or above increased by 2.39 percentage points to 85.96% compared with the end of last year.

- Personal loans rose by RMB95,486 million, or 16.32% to RMB680,571 million compared with the end of last year. They accounted for 21.50% of the gross loans and advances to customers, representing an increase of 1.14 percentage points. The residential mortgage loans, one of the Group's strategic development priorities, rose by RMB45,998 million, or 10.75% compared with the end of 2006, enabling us to retain our leading position in the PRC market. Personal consumer loans grew by RMB7,083 million, or 9.75% over the end of last year. Other loans rose by RMB42,405 million, or 50.23% over the end of 2006, largely due to the rapid growth of home equity loans and personal business loans.

- The balance of discounted bills was RMB145,403 million, representing a drop of RMB13,965 million against the end of 2006, which was chiefly due to the initiatives taken by the Group to improve the yield of assets and support the development of its strategic businesses. The Group proactively controlled the growth of bill discounting business, in particular inter-bank discounting with relatively low yield.

- Loans and advances to customers outside Mainland China rose by 20.11% to RMB85,510 million compared to the end of last year. The expansion of loan business was mainly because the Group invested more resources to the overseas branches, and the branches actively expanded business with increasing marketing efforts.

Investments

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

(In millions of RMB, except percentages)	**As at 30 June 2007**		As at 31 December 2006	
	Amount	**% of total**	Amount	% of total
Debt investments[1]	**1,604,720**	**75.20**	1,353,418	70.88
Receivables	**520,103**	**24.37**	546,357	28.62
Equity investments[2]	**9,218**	**0.43**	9,617	0.50
Total investments	**2,134,041**	**100.00**	1,909,392	100.00

1. *Consist of held-to-maturity debt securities, available-for-sale debt securities and trading debt securities.*
2. *Represent available-for-sale equity investments.*

Strong growth was achieved in the Group's investments in debt securities, among which held-to-maturity debt securities and available-for-sale debt securities grew by RMB92,522 million and RMB153,378 million, or 8.91% and 49.62% respectively over the end of last year. Receivables decreased by RMB26,254 million, mainly because some designated central bank bills subscribed in previous years matured during the period.

As at 30 June 2007, the U.S. sub-prime mortgage loan backed securities held by the Bank was US$1,062 million by nominal value, all with ratings of AA or above. As at 30 June 2007, the Group's allowance for impairment losses on these U.S. sub-prime mortgage loan backed securities was RMB139 million. These securities are expected to have limited impact on the Group's operating results for the year.

Liabilities

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

(In millions of RMB, except percentages)	**As at 30 June 2007**		As at 31 December 2006	
	Amount	**% of total**	Amount	% of total
Deposits from customers	**5,048,285**	**87.16**	4,721,256	92.24
Amounts due to banks and non-bank financial institutions	**549,400**	**9.49**	243,968	4.77
Subordinated bonds issued	**39,923**	**0.69**	39,917	0.78
Other liabilities[1]	**154,445**	**2.66**	113,166	2.21
Total liabilities	**5,792,053**	**100.00**	5,118,307	100.00

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

As at 30 June 2007, the Group's total liabilities amounted to RMB5,792,053 million, an increase of RMB673,746 million, or 13.16% over the end of 2006. Customer deposits remained the major source of funding, but its growth rate slowed down to 6.93% with an increase of RMB327,029 million compared with the end of 2006. The proportion of customer deposits in total liabilities dropped by 5.08 percentage points to 87.16%, mainly because part of the deposits from customers were attracted by the booming domestic stock market. Amounts due to banks and non-bank financial institutions increased by RMB305,432 million or 125.19% compared with the end of 2006, with its share in total liabilities rising by 4.72 percentage points to 9.49%, mainly driven by the significant increase in deposits from securities and fund management companies.

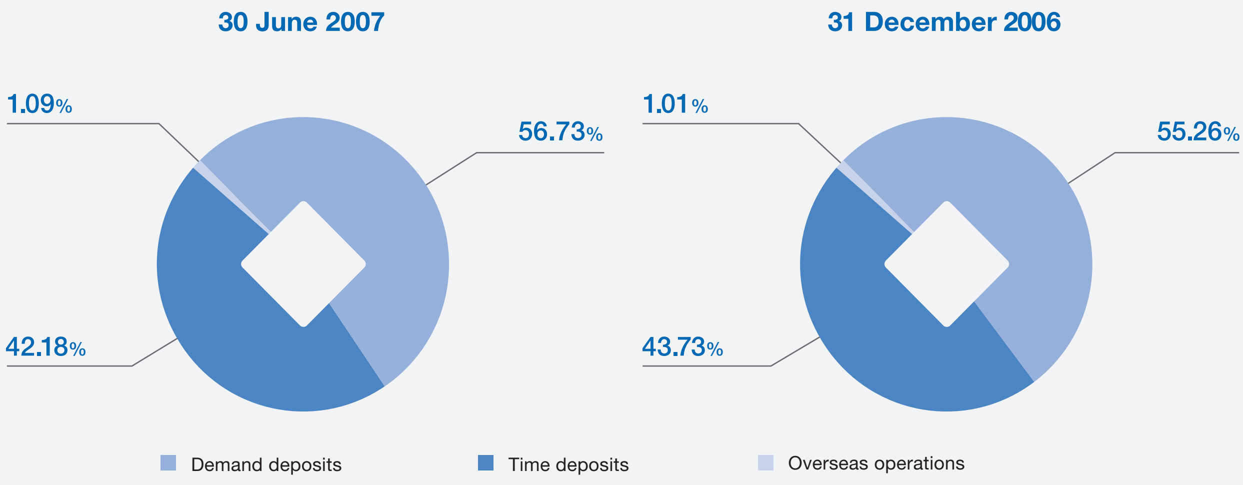
Despite the slowdown of the deposit growth, the Group's liquidity was unaffected owing to the substantial growth of placements from banks and non-bank financial institutions, as the Bank enjoys close relationships with the securities and fund management companies. In the first half of 2007, the RMB average liquidity ratio, i.e. the current assets to current liabilities ratio, was 39.80%, 5.62 percentage points lower than in the first half of last year.

Deposits from customers

The following table sets forth deposits from customers by product type as at the dates indicated.

(In millions of RMB, except percentages)	As at 30 June 2007		As at 31 December 2006	
	Amount	% of total	Amount	% of total
Corporate deposits	**2,687,909**	**53.24**	2,466,284	52.23
Demand deposits	**1,942,355**	**38.47**	1,778,715	37.67
Time deposits	**745,554**	**14.77**	687,569	14.56
Personal deposits	**2,305,462**	**45.67**	2,207,442	46.76
Demand deposits	**921,813**	**18.26**	830,402	17.59
Time deposits	**1,383,649**	**27.41**	1,377,040	29.17
Operations outside Mainland China	**54,914**	**1.09**	47,530	1.01
Total deposits from customers	**5,048,285**	**100.00**	4,721,256	100.00

Composition of deposits from customers



As at 30 June 2007, the Group's deposits from customers were RMB5,048,285 million, an increase of RMB327,029 million or 6.93% over the end of last year. The growth rate of domestic corporate deposits was 8.99%, higher than the 4.44% growth of personal deposits, leading to a drop in the proportion of personal deposits in total deposits from customers by 1.09 percentage points to 45.67%. This was largely because more savings deposits from residents were attracted by the stock market boom. Also as a result of the boom, demand deposits gained in popularity among our customers. The domestic demand deposits rose by 9.78% over the end of last year, much higher than the 3.13% increase in time deposits. The proportion of domestic demand deposits in the deposits from customers rose by 1.47 percentage points to 56.73%.

Shareholders' Equity

(In millions of RMB)	**As at 30 June 2007**	As at 31 December 2006
Share capital	**224,689**	224,689
Capital reserve	**42,091**	42,091
General reserve	**31,365**	10,343
Retained earnings	**17,211**	43,092
Other interests[1]	**10,253**	9,894
Total equity attributable to shareholders of the Bank	**325,609**	330,109
Minority interest	**129**	95
Total equity	**325,738**	330,204

1. *Including statutory surplus reserve fund, investment revaluation reserve and exchange reserve.*

As at 30 June 2007, the ratio of total equity to total assets for the Group was 5.32%. The Bank's shareholders have approved the issuance of A-shares and long-term subordinated bonds to raise capital. The Bank will issue no more than 9 billion A-shares, subject to approval of relevant regulators. The long-term subordinated bonds will be no more than RMB40 billion, subject to approval of relevant regulators. The entire proceeds will be used to supplement the Bank's capital and enhance its capital adequacy level. The Bank believes that the A-share issuance will provide it with a new financing channel, support its sustained development and enhance its competitiveness, thus bringing benefits to the Bank and its shareholders as a whole.

The Board has resolved to declare an interim cash dividend of RMB0.067 per share and a special cash dividend of RMB0.072716 per share, totalling approximately RMB31,393 million.

Capital Adequacy Ratio

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

(In millions of RMB, except percentages)	**As at 30 June 2007**	As at 31 December 2006
Core capital adequacy ratio[1]	**9.43%**	9.92%
Capital adequacy ratio[2]	**11.34%**	12.11%
Components of capital base		
Core capital:		
Share capital	**224,689**	224,689
Capital reserve	**42,464**	40,852
Surplus reserve and general reserve	**45,853**	21,476
Retained earnings[3]	**17,211**	22,421
Minority interests	**129**	95
	330, 346	309,533
Supplementary Capital:		
General provision for doubtful debts	**31,848**	28,736
Revaluation reserve[4]	**(4,608)**	—
Term subordinated bonds	**40,000**	40,000
	67,240	68,736
Total capital base before deductions	**397,586**	378,269
Deductions:		
Goodwill	**(1,689)**	(1,743)
Unconsolidated equity investments	**(1,947)**	(2,131)
Total capital base after deductions	**393,950**	374,395
Risk weighted assets[5]	**3,475,432**	3,091,089

1. *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.*
2. *The capital adequacy ratio is calculated by dividing the total capital base after deductions by risk weighted assets.*
3. *Retained earnings have been deducted by the dividend declared after the balance sheet date, except for the special cash dividend.*
4. *As at 30 June 2007, the reserves arising from changes in the fair value of available-for-sale debt securities are included in supplementary capital while which were included in the core capital for the calculation of capital adequacy ratio as at 31 December 2006.*
5. *The balances of risk weighted assets include 12.5 times of the market risk capital.*

According to the guidelines issued by the CBRC, on a consolidated basis the Group's capital adequacy ratio and core capital adequacy ratio were 11.34% and 9.43% respectively as at 30 June 2007, declining by 0.77 and 0.49 percentage points respectively over the end of 2006. This was mainly due to the combined effect of the following three factors: As a result of the increase in the profit for the first half of the year, the core capital increased by RMB20,813 million after deduction of the interim dividend; As the increase in the general reserve for doubtful debts was offset by the decrease in revaluation reserve, the supplementary capital decreased by RMB1,496 million; As a result of the fast growth of on-balance sheet assets and off-balance sheet businesses, the risk-weighted assets increased by RMB384,343 million.

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.

(In millions of RMB, except percentages)	**As at 30 June 2007**		As at 31 December 2006	
	Amount	**% of total**	Amount	% of total
Normal	**2,840,126**	**89.72**	2,513,322	87.46
Special mention	**232,031**	**7.33**	265,888	9.25
Substandard	**28,214**	**0.89**	29,261	1.02
Doubtful	**51,138**	**1.62**	55,983	1.95
Loss	**14,058**	**0.44**	9,155	0.32
Gross loans and advances to customers	**3,165,567**	**100.00**	2,873,609	100.00
Non-performing loans	**93,410**		94,399	
Non-performing loan ratio		**2.95**		3.29

In the first half of 2007, the Group took active measures to deal with the risk impacts brought about by the government's macroeconomic adjustment and control measures. It set strict lending criteria, applied industry limits to tightly control credit exposures to different industries, and actively improved its credit structure by expanding small business loans and personal credit business. The risk monitoring and early warning mechanism was further strengthened with enhanced risk management on credit customers, and efforts were made to closely monitor and mitigate risks associated with large credit customers on a per account basis. Groups of experts worked together to find solutions to large NPLs, and with strengthened efforts in recoveries and write-offs of existing NPLs, asset quality was further improved. As at 30 June 2007, the NPLs of the Group was RMB93,410 million, a decrease of RMB989 million over the end of 2006, while the NPL ratio dropped by 0.34 percentage points to 2.95%.

Distribution of Loans and NPLs by Product Type

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

(In millions of RMB, except percentages)	**As at 30 June 2007**			As at 31 December 2006		
	Loans	**NPLs**	**% of NPLs to loans**	Loans	NPLs	% of NPLs to loans
Corporate loans	**2,254,083**	**82,330**	**3.65**	2,057,961	83,844	4.07
Short-term loans	**787,249**	**50,198**	**6.38**	743,701	52,831	7.10
Medium to long-term loans	**1,466,834**	**32,132**	**2.19**	1,314,260	31,013	2.36
Personal Loans	**680,571**	**10,780**	**1.58**	585,085	10,378	1.77
Residential mortgage loans	**474,037**	**6,284**	**1.33**	428,039	5,843	1.37
Personal consumer loans	**79,703**	**2,463**	**3.09**	72,620	2,424	3.34
Other loans[1]	**126,831**	**2,033**	**1.60**	84,426	2,111	2.50
Discounted bills	**145,403**	**—**	**—**	159,368	—	—
Operations outside Mainland China	**85,510**	**300**	**0.35**	71,195	177	0.25
Total	**3,165,567**	**93,410**	**2.95**	2,873,609	94,399	3.29

1. *Primarily consist of individual commercial property mortgage loans, personal business loans, home equity loans, credit card loans and education loans.*

In the first half of 2007, the Group further improved its customer structure and loan structure, leading to the continued improvement in the quality of corporate and personal loans. As at 30 June 2007, the NPL ratios for corporate and personal loans fell 0.42 and 0.19 percentage points respectively, compared with those at the end of 2006.

Distribution of Loans and NPLs by Industry

The following table sets forth the loans and NPLs by industry as at the dates indicated.

(In millions of RMB, except percentages)	As at 30 June 2007				As at 31 December 2006			
	Loans	% of total	NPLs	% of NPLs to loans	Loans	% of total	NPLs	% of NPLs to loans
Corporate loans	2,254,083	71.21	82,330	3.65	2,057,961	71.62	83,844	4.07
Manufacturing	564,902	17.85	28,245	5.00	510,427	17.76	28,791	5.64
Transportation, storage and postal services	350,015	11.06	6,036	1.72	326,715	11.37	4,932	1.51
Production and supply of electric power, gas and water	349,036	11.03	4,756	1.36	318,493	11.08	4,348	1.37
Real estate	326,234	10.31	16,688	5.12	302,290	10.52	18,290	6.05
Construction	106,792	3.37	3,483	3.26	96,580	3.36	3,755	3.89
Water, environment and public utility management	106,510	3.36	1,137	1.07	92,173	3.21	1,400	1.52
Education	86,734	2.74	1,315	1.52	77,458	2.69	1,234	1.59
Wholesale and retail trade	81,987	2.59	8,908	10.87	73,526	2.56	8,170	11.11
Leasing and commercial services	70,006	2.21	2,729	3.90	63,659	2.22	3,119	4.90
Mining	65,384	2.06	465	0.71	55,909	1.95	672	1.20
Telecommunications, computer services and software	34,370	1.09	1,273	3.70	38,962	1.36	1,452	3.73
Others	112,113	3.54	7,295	6.51	101,769	3.54	7,681	7.55
Personal loans	680,571	21.50	10,780	1.58	585,085	20.36	10,378	1.77
Discounted bills	145,403	4.59	–	–	159,368	5.55	–	–
Operations outside Mainland China	85,510	2.70	300	0.35	71,195	2.47	177	0.25
Total	3,165,567	100.00	93,410	2.95	2,873,609	100.00	94,399	3.29

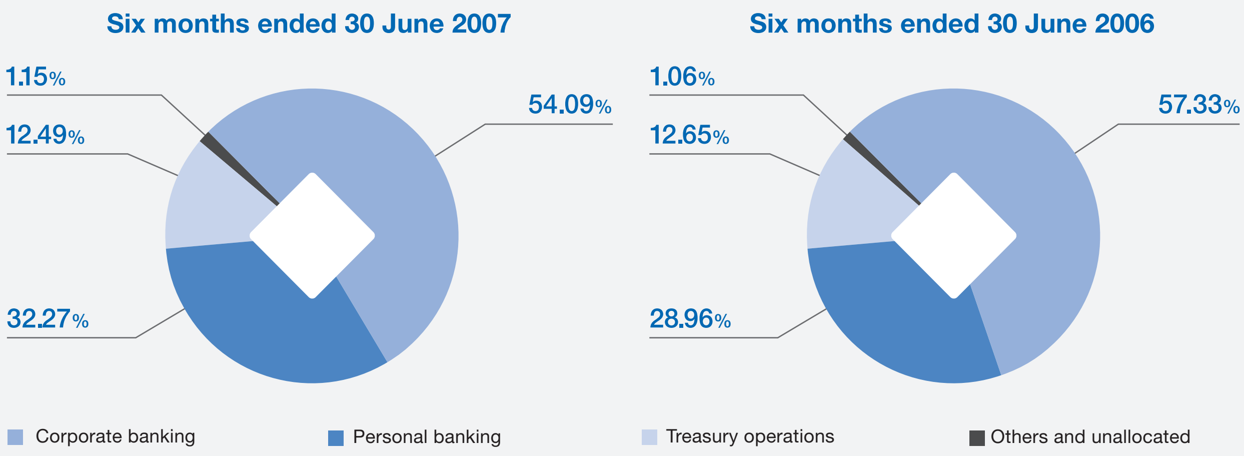
In the first half of 2007, the Bank implemented strict lending criteria for industries, and expedited the disposal of the NPLs. As a result, the mix of loans by industry improved further and the overall loan quality continued to strengthen. In particular, the NPL ratios for the manufacturing and real estate industries, which used to have higher NPL ratios, dropped substantially.

SEGMENT INFORMATION

The Group's major business segments are corporate banking, personal banking, treasury operations, and others and unallocated which include equity investments and overseas operations. The following table sets forth, in the periods indicated, the operating income of each business segment:

(In millions of RMB, except percentages)	**Six months ended 30 June 2007**		Six months ended 30 June 2006	
	Amount	**% of total**	Amount	% of total
Corporate banking	**53,973**	**54.09**	40,629	57.33
Personal banking	**32,196**	**32.27**	20,521	28.96
Treasury operations	**12,467**	**12.49**	8,966	12.65
Others and unallocated	**1,150**	**1.15**	748	1.06
Operating income	**99,786**	**100.00**	70,864	100.00

Composition of operating income



Corporate Banking

The table below sets forth the operating information related to corporate banking.

(In millions of RMB)	**Six months ended 30 June 2007**	Six months ended 30 June 2006
Net interest income	**50,754**	38,029
Net fee and commission income	**3,121**	2,538
Other operating income	**98**	62
Operating income	**53,973**	40,629
Operating expenses	**(15,946)**	(13,848)
Provisions for impairment losses	**(10,043)**	(6,636)
Profit before tax	**27,984**	20,145
	As at 30 June 2007	As at 30 June 2006
Segment assets	**2,727,699**	2,507,040

Corporate banking is one of the Group's pillar businesses. For the first half of 2007, the corporate banking achieved operating income of RMB53,973 million, an increase of RMB13,344 million, or 32.84% over the same period in 2006. The profit before tax was RMB27,984 million, with an increase of RMB7,839 million or 38.91% over the same period in 2006.

The development of corporate banking was achieved through the following initiatives:

- *Further strengthening our advantage in established medium to long-term loans:* In the first half of 2007, with the tightening macroeconomic control measures and strong credit demand from customers in the PRC market, we focused on our established products and continued to improve our customer structure. As a result, the medium to long-term loans increased by RMB152,574 million, and the infrastructure loans rose by RMB85,257 million over the end of last year. The loans extended to customers with internal credit ratings of A or above accounted for 85.96% of the corporate loans, 2.39 percentage points higher than at the end of 2006.

- *Significant progress in marketing to key institutional customers:* Progress was made in marketing to valued institutional customers including universities and hospitals with the efforts of our special marketing teams. We continued to enjoy a competitive edge in the cooperation between banks and securities companies, and have entered into cooperation with 87.96% of domestic securities companies to provide independent custodial services for the stock trading settlement funds. Furthermore, we continued to dominate in the fiscal agency services, and gained opportunities to provide services such as the government business card.

- *Continued efforts to push forward small enterprise business:* We actively explored ways to establish a specialised and standardised small enterprise credit business model, with pilot small enterprise business centres at all three levels of the head office, tier-1 branches and tier-2 branches, forming relatively independent business units for performance assessment. The brands of "Quick Finance" and "Road to Growth" were further enhanced. The development of small enterprise business has enhanced our pricing and earning ability, and strengthened our influence in the market. As at 30 June 2007, the Bank's loans to small businesses reached RMB222,357 million, up 15.24% compared to the end of last year, representing 9.86% of the corporate loans.

- *Promotion of key corporate fee-based business products:* In the first half of 2007, the Group's net fee and commission income from corporate banking increased by 22.97% to RMB3,121 million. Financial advisory, corporate purchases and sales of foreign exchange, guarantee, and settlement services for corporates were four key products, generating 59% of the net fee and commission income from corporate banking. In the first half of the year, with improved operating process for the lower risk guarantee businesses, strengthened marketing efforts and innovative guarantee products, the guarantee fees amounted to RMB414 million, 50.55% higher than in the same period in 2006. The Bank is the only domestic commercial bank that has the qualification to provide project pricing assessment services. With the enhanced brand image and strengthened marketing efforts in collaboration with the assets and liabilities businesses, the commission income from the project pricing advisory services reached RMB346 million, 65.75% higher than in the same period last year. In the first half of 2007, we underwrote commercial bills of RMB20,450 million, and issued trust certificates of RMB12,440 million backed by trust loans.

Personal Banking

The table below sets forth the operating information related to personal banking.

(In millions of RMB)	**Six months ended 30 June 2007**	Six months ended 30 June 2006
Net interest income	**24,290**	17,383
Net fee and commission income	**7,905**	3,138
Other operating income	**1**	—
Operating income	**32,196**	20,521
Operating expenses	**(17,893)**	(12,612)
Provisions for impairment losses	**(1,605)**	(1,662)
Profit before tax	**12,698**	6,247
	As at 30 June 2007	As at 30 June 2006
Segment assets	**701,348**	524,388

To increase the share of personal banking business in the Group is one of the Group's most important objectives of operating transformation. For the first half of 2007, the segment realised an operating income of RMB32,196 million, an increase of RMB11,675 million or 56.89% compared with the same period last year. Profit before tax rose by RMB6,451 million to RMB12,698 million, 103.27% higher than in the same period last year.

The development of personal banking was achieved through the following initiatives:

- *Substantial improvements in personal loan process and service quality:* In the first half of 2007, the Bank rolled out the result of pilot branch transformation, leading to both service quality improvement and product sales growth. The promotion of the personal loan centres has bolstered the centralised and specialised management of personal loan products. The launch of the new personal loan system raised our management efficiency and risk control capability. As at 30 June 2007, the residential mortgage loans amounted to RMB474,037 million, an increase of RMB45,998 million over the end of 2006, maintaining the first place in the PRC market.

- *Further lifting credit card brand image and market influence:* In the first half of 2007, more series of credit cards have been launched, and our brand edge and market influence of the three major types of cards, which include those targeting at specific groups, the co-branded affinity cards and those aiming at strategic alliance, were further strengthened. As one of the key areas for strategic collaboration with Bank of America Corporation, credit card related consultancy and cooperation had already started. As at 30 June 2007, 2.49 million new dual currency Long credit cards had been issued, with the total number of credit cards issued reaching 8.83 million. A total of RMB32,364 million was spent by our cardholders during the period, representing a 93.80% growth over the first half of 2006. Credit card loans amounted to RMB6,154 million, rising by 32.29% compared with the end of 2006.

- *Seizing market opportunities for rapid growth of agency services such as fund agency business:* In the first half of 2007, the net fee and commission income from personal banking was RMB7,905 million, an increase of RMB4,767 million or 151.91% compared with the first half of 2006. With the residents' growing enthusiasm for investment together with the booming domestic stock market, the Bank cooperated with well-managed fund companies to wage ongoing and targeted marketing campaigns in a timely manner, and continued to enrich our fund products. The income arising from personal banking fund agency business soared by RMB3,746 million, or 2,926.56% to RMB3,874 million, and became a major growth point of the net fee and commission income.

Treasury Operations

The table below sets forth the operating information related to treasury operations.

(In millions of RMB)	**Six months ended 30 June 2007**	Six months ended 30 June 2006
Net interest income	**14,430**	10,778
Net fee and commission income	**1,264**	517
Net trading gain	**247**	71
Net gain arising from investment securities	**134**	49
Other operating loss	**(3,608)**	(2,449)
Operating income	**12,467**	8,966
Operating expenses	**(2,161)**	(1,294)
Provisions for impairment losses	**(139)**	—
Profit before tax	**10,167**	7,672
	As at 30 June 2007	As at 30 June 2006
Segment assets	**2,553,995**	2,039,287

In the first half of the year, we studied domestic and overseas financial market trends carefully, and adopted a proactive investment portfolio management strategy. We accelerated the pace of product innovation, and continued to expand our customer-driven deals and wealth management business. With an enhanced internal control mechanism, a strong operating result was achieved. In the first half of 2007, the operating income from treasury operations amounted to RMB12,467 million, with an increase of RMB3,501 million or 39.05% over the same period last year. Profit before tax was RMB10,167 million, an increase of RMB2,495 million or 32.52% compared with the same period in 2006.

The development of treasury operations was achieved through the following initiatives:

- *Strengthened portfolio management and improved return on investments:* The Bank developed a quantitative asset allocation model, implemented a dynamic investment portfolio management strategy, and strove to raise the yield with timely adjustment in the asset structure and increased high-yield products in the portfolio. In the first half of 2007, the average yield on investments in debt securities was 3.16%, up 32 basis points over the first half of 2006.

- *Strong growth of customer-driven transactions with intensive marketing efforts:* The Bank actively promoted products and carried out marketing activities in accordance with the market demand, and the income from customer-driven transactions amounted to RMB1,322 million. The volume of customer-driven foreign exchange transactions reached US$81,036 million, an increase of 48.55% compared with the same period last year. In this amount, the volume of purchases and sales of foreign exchange reached US$72,263 million, an increase of 47.68%; while that of customer-driven foreign exchange trading was US$8,710 million, an increase of 56.56% compared to the same period last year.

Operations outside Mainland China

The Bank has branches in Hong Kong, Singapore, Frankfurt, Johannesburg, Tokyo, and Seoul, with representative offices in London and New York. In Hong Kong, the Bank has two wholly-owned subsidiary banks— CCB (Asia), and China Construction Bank (Asia) Limited. Currently, the Bank's application for the establishment of a representative office in Sydney of Australia has been approved by the CBRC and the Australian Prudential Regulation Authority. The application for the establishment of an overseas branch in Ho Chi Minh City of Vietnam has also been approved by the CBRC.

In the first half of 2007, the operating income from operations outside Mainland China was RMB1,453 million, an increase of RMB1,026 million or 240.28% compared to the same period last year. The profit before tax for the period was RMB943 million, an increase of RMB675 million or 251.87% compared with the same period in 2006. The increases in the operating income and profit before tax were largely due to the contribution from CCB (Asia), the acquisition of which was completed on 29 December 2006.

China Construction Bank (Asia) Corporation Limited

The Bank completed the acquisition of Bank of America (Asia) Limited and renamed it as China Construction Bank (Asia) Corporation Limited in December 2006. In the first half of 2007, CCB (Asia) developed smoothly in various businesses, maintaining good momentum in its operations.

As at 30 June 2007, CCB (Asia)'s total assets amounted to HK$40,933 million, an increase of HK$4,038 million or 10.95% compared with the end of 2006; the loan balance of HK$28,814 million showed an increase of 8.01% over the end of last year; the customer deposits rose by 9.73% to HK$28,752 million; the NPL ratio was 0.26%. For six months ended 30 June 2007, CCB (Asia) realised a pre-tax profit of HK$394 million.

To integrate the retail business of the Group in Hong Kong, in the first half of the year the Hong Kong Branch transferred all its retail business assets and liabilities to CCB (Asia), and the four branches of the Hong Kong Branch were also transferred to CCB (Asia). Currently, CCB (Asia) has 21 branches in total, with 18 in Hong Kong and 3 in Macau.

Independent Review Report

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

INTRODUCTION

We have reviewed the interim financial report of China Construction Bank Corporation (the "Bank") and its subsidiaries (collectively the "Group") sets out on pages 42 to 132, which comprises the consolidated and Bank balance sheets as at 30 June 2007, and the consolidated income statement, the consolidated and Bank statements of changes in equity, the consolidated cash flow statement for the six month period then ended and explanatory notes.

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors are responsible for the preparation and presentation of this interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial report consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2007 is not prepared, in all material respects, in accordance with International Accounting Standards 34 "Interim Financial Reporting".

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

24 August 2007

Interim Financial Report

Unaudited Consolidated Income Statement

For the six months ended 30 June 2007 (Expressed in millions of Renminbi unless otherwise stated)

	Note	Six months ended 30 June 2007	2006
Interest income		**130,897**	100,476
Interest expense		**(41,684)**	(35,191)
Net interest income	2	**89,213**	65,285
Fee and commission income		**13,271**	6,782
Fee and commission expense		**(611)**	(508)
Net fee and commission income	3	**12,660**	6,274
Net trading gain	4	**247**	129
Dividend income	5	**76**	192
Net income arising from investment securities	6	**549**	672
Other operating loss, net	7	**(2,959)**	(1,688)
Operating income		**99,786**	70,864
Operating expenses	8	**(37,275)**	(29,516)
		62,511	41,348
Provisions for impairment losses on			
— loans and advances to customers	9(a)	**(11,648)**	(8,318)
— others	9(b)	**(321)**	(216)
Impairment losses		**(11,969)**	(8,534)
Profit before tax		**50,542**	32,814
Income tax	10(a)	**(16,287)**	(9,591)
Net profit		**34,255**	23,223
Attributable to:			
Shareholders of the Bank		**34,221**	23,223
Minority interests		**34**	—
Net profit		**34,255**	23,223
Cash dividends attributable to shareholders of the Bank			
Final cash dividend attributable to the year ended 31 December 2005 and approved during the six months ended 30 June 2006	26(c)	**—**	3,370
Final cash dividend attributable to the year ended 31 December 2006 and approved during the six months ended 30 June 2007	26(c)	**20,671**	—
Interim cash dividend attributable to and approved during the six months ended 30 June 2007	26(b)	**15,054**	—
Special cash dividend approved after the balance sheet date	26(b), 26(d)	**16,339**	—
		52,064	3,370
Basic and diluted earnings per share (in RMB)	11	**0.15**	0.10

The notes on pages 49 to 132 form part of this unaudited interim financial report.

Unaudited Consolidated Balance Sheet

As at 30 June 2007 (Expressed in millions of Renminbi)

	Note	As at 30 June 2007	As at 31 December 2006
Assets			
Cash and balances with central banks	*12*	**679,141**	539,673
Amounts due from banks and non-bank financial institutions	*13*	**94,746**	82,185
Loans and advances to customers	*14*	**3,080,870**	2,795,976
Trading debt securities	*15*	**11,018**	5,616
Investment securities	*15*	**2,123,023**	1,903,776
Interest in associate	*16(b)*	**112**	103
Property and equipment	*17*	**51,449**	53,037
Goodwill	*18*	**1,689**	1,743
Deferred tax assets	*19*	**4,395**	2,701
Derivatives	*32(d)*	**12,638**	14,514
Other assets	*20*	**58,710**	49,187
Total assets		**6,117,791**	5,448,511
Liabilities			
Amounts due to central banks		**1,306**	1,256
Amounts due to banks and non-bank financial institutions	*21*	**549,400**	243,968
Deposits from customers	*22*	**5,048,285**	4,721,256
Certificates of deposit issued		**10,017**	6,957
Current tax liabilities		**14,586**	17,897
Deferred tax liabilities	*19*	**36**	25
Other liabilities and provisions	*23*	**124,248**	84,316
Derivatives	*32(d)*	**4,252**	2,715
Subordinated bonds issued	*24*	**39,923**	39,917
Total liabilities		**5,792,053**	5,118,307
Equity			
Share capital	*25(a)*	**224,689**	224,689
Reserves	*25*	**100,920**	105,420
Total equity attributable to shareholders of the Bank		**325,609**	330,109
Minority interests		**129**	95
Total equity		**325,738**	330,204
Total equity and liabilities		**6,117,791**	5,448,511

Approved and authorised for issue by the board of directors on 24 August 2007.

Zhang Jianguo	**Tse Hau Yin, Aloysius**	**Elaine La Roche**
Vice chairman and executive director	*Independent non-executive director*	*Independent non-executive director*

The notes on pages 49 to 132 form part of this unaudited interim financial report.

Unaudited Balance Sheet of the Bank

As at 30 June 2007 (Expressed in millions of Renminbi)

	As at 30 June 2007	As at 31 December 2006
Assets		
Cash and balances with central banks	**678,975**	539,556
Amounts due from banks and non-bank financial institutions	**90,232**	76,026
Loans and advances to customers	**3,050,692**	2,767,232
Trading debt securities	**8,320**	3,454
Investment securities	**2,119,312**	1,900,533
Investments in subsidiaries	**615**	626
Property and equipment	**51,281**	52,884
Deferred tax assets	**4,450**	2,682
Amount due from subsidiaries	**12,053**	12,047
Derivatives	**12,320**	14,286
Other assets	**58,088**	48,577
Total assets	**6,086,338**	5,417,903
Liabilities		
Amounts due to central banks	**1,306**	1,256
Amounts due to banks and non-bank financial institutions	**548,112**	243,793
Amounts due to subsidiaries	**3,516**	1,208
Deposits from customers	**5,017,731**	4,692,843
Certificates of deposit issued	**8,564**	5,957
Current tax liabilities	**14,430**	17,816
Deferred tax liabilities	**16**	25
Other liabilities and provisions	**123,878**	82,855
Derivatives	**3,988**	2,522
Subordinated bonds issued	**39,923**	39,917
Total liabilities	**5,761,464**	5,088,192
Equity		
Share capital	**224,689**	224,689
Reserves	**100,185**	105,022
Total equity	**324,874**	329,711
Total equity and liabilities	**6,086,338**	5,417,903

Approved and authorised for issue by the board of directors on 24 August 2007.

Zhang Jianguo	**Tse Hau Yin, Aloysius**	**Elaine La Roche**
Vice chairman and executive director	*Independent non-executive director*	*Independent non-executive director*

The notes on pages 49 to 132 form part of this unaudited interim financial report.

Unaudited Consolidated Statement of Changes in Equity

For the six months ended 30 June 2007 (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 2007		**224,689**	**42,091**	**11,133**	**—**	**(1,226)**	**10,343**	**(13)**	**43,092**	**95**	**330,204**
Net profit for the six months		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**34,221**	**34**	**34,255**
Net change in fair value of available-for-sale investments	*25(d)*	**—**	**—**	**—**	**—**	**(2,602)**	**—**	**—**	**—**	**—**	**(2,602)**
Net loss realised on disposal of available-for-sale investments	*25(d)*	**—**	**—**	**—**	**—**	**85**	**—**	**—**	**—**	**—**	**85**
Effect of change in tax rate	*19(b)*	**—**	**—**	**—**	**—**	**(145)**	**—**	**—**	**—**	**—**	**(145)**
Appropriations to statutory surplus reserve fund and general reserve	*25(c), 25(e), 26(a)*	**—**	**—**	**3,355**	**—**	**—**	**21,022**	**—**	**(24,377)**	**—**	**—**
Exchange differences	*25(f)*	**—**	**—**	**—**	**—**	**—**	**—**	**(334)**	**—**	**—**	**(334)**
Profit distributions	*26(b), 26(c)*	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(35,725)**	**—**	**(35,725)**
As at 30 June 2007		**224,689**	**42,091**	**14,488**	**—**	**(3,888)**	**31,365**	**(347)**	**17,211**	**129**	**325,738**
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 six months		—	—	—	—	—	—	—	23,223	—	23,223
Net change in fair value of available-for-sale investments	*25(d)*	—	—	—	—	(2,389)	—	—	—	—	(2,389)
Net loss realised on disposal of available-for-sale investments	*25(d)*	—	—	—	—	104	—	—	—	—	104
Transfers in/(out)	*25(c)*	—	—	2,167	(2,167)	—	—	—	—	—	—
Appropriations to general reserve	*25(e), 26(a)*	—	—	—	—	—	9	—	(9)	—	—
Exchange differences	*25(f)*	—	—	—	—	—	—	(8)	—	—	(8)
Profit distributions	*26(c)*	—	—	—	—	—	—	—	(3,370)	—	(3,370)
As at 30 June 2006		224,689	42,091	6,501	—	(3,108)	10,341	(2)	24,627	98	305,237
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	*25(d)*	—	—	—	—	(632)	—	—	—	—	(632)
Net loss realised on disposal of available-for-sale investments	*25(d)*	—	—	—	—	229	—	—	—	—	229
Transfers in/(out)	*25(c)*	—	—	2,167	(2,167)	—	—	—	—	—	—
Appropriations to statutory surplus reserve fund and general reserve	*25(c), 25(e), 26(a)*	—	—	4,632	—	—	11	—	(4,643)	—	—
Exchange differences	*25(f)*	—	—	—	—	—	—	(19)	—	—	(19)
Profit distributions	*26(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

The notes on pages 49 to 132 form part of this unaudited interim financial report.

Unaudited Statement of Changes in Equity of the Bank

For the six months ended 30 June 2007 (Expressed in millions of Renminbi)

	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 2007	**224,689**	**42,091**	**11,133**	**—**	**(1,248)**	**10,341**	**(3)**	**42,708**	**329,711**
Net profit for the six months	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**33,550**	**33,550**
Net change in fair value of available-for-sale investments	**—**	**—**	**—**	**—**	**(2,596)**	**—**	**—**	**—**	**(2,596)**
Net loss realised on disposal of available-for-sale investments	**—**	**—**	**—**	**—**	**85**	**—**	**—**	**—**	**85**
Effect of change in tax rate	**—**	**—**	**—**	**—**	**(145)**	**—**	**—**	**—**	**(145)**
Appropriations to statutory surplus reserve fund and general reserve	**—**	**—**	**3,355**	**—**	**—**	**20,839**	**—**	**(24,194)**	**—**
Exchange differences	**—**	**—**	**—**	**—**	**—**	**—**	**(6)**	**—**	**(6)**
Profit distributions	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(35,725)**	**(35,725)**
As at 30 June 2007	**224,689**	**42,091**	**14,488**	**—**	**(3,904)**	**31,180**	**(9)**	**16,339**	**324,874**
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 six months	—	—	—	—	—	—	—	23,175	23,175
Net change in fair value of available-for-sale investments	—	—	—	—	(2,423)	—	—	—	(2,423)
Net loss realised on disposal of available-for-sale investments	—	—	—	—	138	—	—	—	138
Transfers in/(out)	—	—	2,167	(2,167)	—	—	—	—	—
Appropriations to general reserve	—	—	—	—	—	9	—	(9)	—
Exchange differences	—	—	—	—	—	—	(7)	—	(7)
Profit distributions	—	—	—	—	—	—	—	(3,370)	(3,370)
As at 30 June 2006	224,689	42,091	6,501	—	(3,127)	10,341	(1)	24,403	304,897
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	—	—	—	—	(635)	—	—	—	(635)
Net loss realised on disposal of available-for-sale investments	—	—	—	—	229	—	—	—	229
Transfers in/(out)	—	—	2,167	(2,167)	—	—	—	—	—
Appropriations to statutory surplus reserve fund and general reserve	—	—	4,632	—	—	9	—	(4,641)	—
Exchange differences	—	—	—	—	—	—	(9)	—	(9)
Profit distributions	—	—	—	—	—	—	—	(3,370)	(3,370)
As at 31 December 2006	224,689	42,091	11,133	—	(1,248)	10,341	(3)	42,708	329,711

The notes on pages 49 to 132 form part of this unaudited interim financial report.

Unaudited Consolidated Cash Flow Statement

For the six months ended 30 June 2007 (Expressed in millions of Renminbi)

		Six months ended 30 June	
	Note	**2007**	2006
Operating activities			
Profit before tax		**50,542**	32,814
Adjustments for:			
— dividend income		**(76)**	(192)
— revaluation gain on investments and derivatives		**(198)**	(11)
— net gain on disposal of investments, property and equipment and other assets		**(641)**	(716)
— unrealised foreign exchange loss		**3,401**	2,358
— depreciation charges and amortisation	*8*	**3,854**	3,527
— provisions for impairment losses		**11,969**	8,534
— interest expense on subordinated bonds issued	*2*	**954**	930
		69,805	47,244
Changes in operating assets and liabilities:			
(Increase)/decrease in balances with central banks		**(143,094)**	20,217
Increase in amounts due from banks and non-bank financial institutions		**(18,456)**	(1,321)
Increase in loans and advances to customers		**(300,994)**	(359,213)
Increase in other operating assets		**(3,386)**	(5,157)
Increase in amounts due to central banks		**50**	—
Increase in amounts due to banks and non-bank financial institutions		**307,291**	59,789
Increase in deposits from customers		**332,028**	485,520
Increase in certificates of deposit issued		**3,320**	628
Income tax paid		**(20,601)**	(7,667)
Increase in other operating liabilities		**3,259**	10,665
Net cash from operating activities		**229,222**	250,705

Unaudited Consolidated Cash Flow Statement

For the six months ended 30 June 2007 (Expressed in millions of Renminbi)

		Six months ended 30 June	
	Note	**2007**	2006
Investing activities			
Proceeds from disposal and redemption of investments		**532,752**	308,988
Dividend received		**76**	198
Proceeds from disposal of property and equipment and other assets		**166**	103
Payments on acquisition of investments		**(768,829)**	(665,617)
Payments on acquisition of property and equipment and other assets		**(2,051)**	(1,821)
Net cash used in investing activities		**(237,886)**	(358,149)
Financing activities			
Interest paid on subordinated bonds issued		**(126)**	(108)
Net decrease in cash and cash equivalents		**(8,790)**	(107,552)
Cash and cash equivalents as at 1 January	*27*	**167,489**	280,757
Effect of exchange rate changes on cash held		**(531)**	(676)
Cash and cash equivalents as at 30 June	*27*	**158,168**	172,529
Cash flows from operating activities include:			
Interest received		**121,103**	96,356
Interest paid, excluding interest expense on subordinated bonds issued		**(37,953)**	(30,087)

The notes on pages 49 to 132 form part of this unaudited interim financial report.

1 BASIS OF PREPARATION

The interim financial report of China Construction Bank Corporation (the "Bank") and its subsidiaries (collectively the "Group") has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). The interim financial report, which was authorised for issuance by the board of directors on 24 August 2007, reflects the unaudited financial position of the Group as at 30 June 2007 and the unaudited results of operations and cash flows of the Group for the six months then ended, which is not necessarily indicative of the results of operations and cash flows expected for the year ending 31 December 2007.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the Group's financial statements for the year ended 31 December 2006.

The preparation of the interim financial report requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial report contains selected explanatory notes. The selected notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the financial statements for the year ended 31 December 2006. The selected notes do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRS").

The interim financial report is unaudited, but has been reviewed by the Audit Committee of the Bank. This interim financial report has also been reviewed by the Bank's auditors, KPMG, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. KPMG's independent review report to the board of directors is included on page 40.

The financial information for the year ended 31 December 2006 that is included in this interim financial report as previously reported information does not constitute the Group's statutory financial statements for that year but is derived from those financial statements. The statutory financial statements for the year ended 31 December 2006 are available from the Bank's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 13 April 2007.

(Expressed in millions of Renminbi unless otherwise stated)

2 NET INTEREST INCOME

	Six months ended 30 June	
	2007	2006
Interest income arising from:		
Balances with central banks	**4,923**	3,366
Amounts due from banks and non-bank financial institutions	**1,475**	2,776
Loans and advances to customers (note (i))		
— corporate loans	**69,849**	55,338
— personal loans	**19,726**	13,455
— discounted bills	**2,700**	2,825
Investment debt securities (note (ii))	**32,091**	22,644
	130,764	100,404
Financial assets at fair value through profit and loss (note (iii))	**133**	72
Total interest income	**130,897**	100,476
Interest expense arising from:		
Amounts due to banks and non-bank financial institutions	**(4,167)**	(2,169)
Deposits from customers	**(36,375)**	(31,968)
Subordinated bonds issued	**(954)**	(930)
Others	**(188)**	(124)
Total interest expense	**(41,684)**	(35,191)
Net interest income	**89,213**	65,285

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 RMB1,026 million for the six months ended 30 June 2007 (for the six months ended 30 June 2006: RMB519 million), which includes interest income on the unwinding of discount of allowances for loan impairment losses of RMB984 million for the six months ended 30 June 2007 (for the six months ended 30 June 2006: RMB454 million) (Note 14(b)).

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

(iii) Financial assets at fair value through profit and loss include financial instruments held for trading purpose, or designated at fair value through profit and loss.

(Expressed in millions of Renminbi unless otherwise stated)

3 NET FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2007	2006
Fee and commission income:		
Agency fees for securities, foreign currency dealing and insurance services	**5,864**	1,623
Bank card fees	**2,299**	1,733
Remittance, settlement and account management fees	**1,579**	1,289
Consultancy and advisory fees	**1,366**	843
Commission on trust business	**1,219**	674
Guarantee fees	**417**	277
Payment and collection services fees	**182**	122
Others	**345**	221
Total fee and commission income	**13,271**	6,782
Fee and commission expenses:		
Bank card transaction fees	**(293)**	(223)
Inter-bank transaction fees	**(130)**	(81)
Others	**(188)**	(204)
Total fee and commission expenses	**(611)**	(508)
Net fee and commission income	**12,660**	6,274

Fee and commission income earned by the Group on trust and fiduciary activities where the Group holds or invests assets on behalf of its customers amount to RMB1,319 million (for the six months ended 30 June 2006: RMB701 million).

Included above are fee and commission income and expenses relating to financial assets and liabilities not carried at fair value through profit and loss (other than amounts included in determining the effective interest rate) of RMB3,990 million and RMB374 million respectively (for the six months ended 30 June 2006: RMB2,510 million and RMB304 million respectively).

(Expressed in millions of Renminbi unless otherwise stated)

4 NET TRADING GAIN

	Six months ended 30 June	
	2007	2006
Debt securities	**(72)**	(69)
Derivatives	**202**	103
Others	**117**	95
	247	129

5 DIVIDEND INCOME

	Six months ended 30 June	
	2007	2006
Dividend income from available-for-sale equity securities		
— listed	**12**	10
— unlisted	**64**	182
	76	192

6 NET INCOME ARISING FROM INVESTMENT SECURITIES

	Six months ended 30 June	
	2007	2006
Net income on sale of available-for-sale securities	**676**	878
Net revaluation loss transferred from equity on disposal	**(127)**	(206)
	549	672

(Expressed in millions of Renminbi unless otherwise stated)

7 OTHER OPERATING LOSS, NET

	Six months ended 30 June	
	2007	2006
Net foreign exchange loss (note)	**(3,568)**	(2,421)
Net gain on disposal of property and equipment	**29**	21
Net gain on disposal of repossessed assets	**89**	135
Others	**491**	577
	(2,959)	(1,688)

Note:

Net foreign exchange loss includes the changes in fair value and net exchange gains arising from foreign exchange options and cross currency swaps entered into for economically hedging long positions in foreign currency assets.

8 OPERATING EXPENSES

	Six months ended 30 June	
	2007	2006
Staff costs		
— salaries, bonuses and staff welfare expenses	**13,407**	10,850
— contributions to defined contribution retirement schemes	**1,466**	1,192
— housing allowance	**897**	801
— supplementary retirement benefits	**385**	97
— staff termination costs	**12**	24
— others	**2,506**	1,789
	18,673	14,753
Premises and equipment expenses		
— depreciation charges	**3,356**	3,043
— rent and property management expenses	**1,521**	1,210
— utilities	**516**	442
— maintenance	**338**	282
— others	**326**	294
	6,057	5,271
Other general and administrative expenses	**6,382**	4,836
Business tax and surcharges (note)	**5,665**	4,172
Amortisation expense	**498**	484
	37,275	29,516

Note:

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.

(Expressed in millions of Renminbi unless otherwise stated)

9 PROVISIONS FOR IMPAIRMENT LOSSES

(a) Impairment losses on loans and advances to customers

	Six months ended 30 June 2007
Additions	13,429
Releases	(1,781)
	11,648

(b) Other impairment losses

	Six months ended 30 June	
	2007	2006
Available-for-sale securities	87	27
Held-to-maturity debt securities	77	—
Property and equipment	—	37
Others	157	152
	321	216

(Expressed in millions of Renminbi unless otherwise stated)

10 INCOME TAX

(a) Recognised in the consolidated income statement

	Six months ended 30 June	
	2007	2006
Current tax		
— Mainland China (note)	**17,209**	9,550
— Hong Kong (note)	**101**	36
— overseas	**2**	7
	17,312	9,593
Deferred tax (Note 19(b))		
— effect of change in tax rate on deferred tax (Note 10(b)(iii), 19(b))	**265**	—
— deferred tax recognised in current period	**(1,268)**	(2)
	(1,003)	(2)
Overprovision in prior year	**(22)**	—
Total income tax	**16,287**	9,591

Note:

For the purpose of preparing this interim financial report, Mainland China refers to People's Republic of China ("PRC") excluding the Hong Kong Special Administrative Region of the PRC ("Hong Kong"), the Macau Special Administrative Region of the PRC ("Macau") and Taiwan.

(Expressed in millions of Renminbi unless otherwise stated)

10 INCOME TAX *(Continued)*

(b) Reconciliation of profit before tax to income tax

	Six months ended 30 June	
	2007	2006
Profit before tax	**50,542**	32,814
Expected PRC income tax charged at statutory tax rate of 33% (note (i))	**16,679**	10,829
Non-deductible expenses (note (ii))		
— staff costs	**111**	68
— impairment losses	**709**	18
— effect of change in tax rate on deferred tax (note (iii))	**265**	—
— others	**35**	51
	1,120	137
Non-taxable income		
— interest income from PRC government bonds	**(1,434)**	(1,317)
— others	**(56)**	(58)
	(1,490)	(1,375)
	16,309	9,591
Overprovision in prior year	**(22)**	—
Total income tax	**16,287**	9,591

Notes:

(i) The expected 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 loans and advances to customers, investments, 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, the Bank's tax deductible staff costs are calculated based on the previous year's tax deductible staff costs from 1 January 2006, adjusting for the performance of the Bank.

(iii) On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the unified enterprise income tax law. Pursuant to the unified income tax law, the income tax rate that is applicable to the Bank and its subsidiaries in the Mainland China will be reduced from 33% to 25% effective from 1 January 2008. Deferred tax assets and liabilities are adjusted for the change in income tax rate through income statement or equity (Note 19(b)).

(Expressed in millions of Renminbi unless otherwise stated)

11 EARNINGS PER SHARE

Basic earnings per share for the six months ended 30 June 2007 and 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 during the six months.

There was no difference between basic and diluted earnings per share as there were no potential dilutive shares outstanding during the six months ended 30 June 2007 and 2006.

12 CASH AND BALANCES WITH CENTRAL BANKS

	As at 30 June 2007	As at 31 December 2006
Cash	**27,927**	30,191
Balances with central banks		
— statutory deposit reserves (note (i))	**541,393**	402,835
— surplus deposit reserve (note (ii))	**102,453**	103,767
— fiscal deposits	**7,368**	2,880
	651,214	509,482
Total	**679,141**	539,673

Notes:

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

As at 30 June 2007, the statutory deposit reserve placed with the PBC was calculated at 11.5% (as at 31 December 2006: 9%) of eligible Renminbi deposits for domestic branches of the Bank. The Bank was also required to deposit an amount equivalent to 5% (as at 31 December 2006: 4%) of its foreign currency deposits from domestic branches as a statutory deposit reserve.

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

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

(Expressed in millions of Renminbi unless otherwise stated)

13 AMOUNTS DUE FROM BANKS AND NON-BANK FINANCIAL INSTITUTIONS

(a) Analysed by nature

	As at 30 June 2007	As at 31 December 2006
Money market placements	**19,399**	31,557
Balances under resale agreements	**56,918**	33,289
Deposits	**19,106**	18,259
Gross balances	**95,423**	83,105
Less: Allowances for impairment losses (Note 13(d))	**(677)**	(920)
Net balances	**94,746**	82,185

(b) Analysed by geographical location

	As at 30 June 2007	As at 31 December 2006
Balances with		
— banks in Mainland China	**35,974**	31,659
— non-bank financial institutions in Mainland China (note)	**47,075**	28,275
	83,049	59,934
Balances with banks outside Mainland China	**12,374**	23,171
Gross balances	**95,423**	83,105
Gross balances with banks and non-bank financial institutions		
— maturing within one month	**76,035**	64,344
— maturing between one month and one year	**19,040**	18,379
— maturing after one year	**348**	382
	95,423	83,105

Note:

Non-bank financial institutions in Mainland China represent financial institutions registered with and under the supervision of the relevant regulatory bodies in Mainland China, other than banks in Mainland China.

(Expressed in millions of Renminbi unless otherwise stated)

13 AMOUNTS DUE FROM BANKS AND NON-BANK FINANCIAL INSTITUTIONS *(Continued)*

(c) Analysed by legal form of counterparty

	As at 30 June 2007	As at 31 December 2006
Balances with		
— PRC policy banks	**1,207**	2,007
— PRC state-owned banks and non-bank financial institutions	**14,432**	21,447
— PRC joint-stock banks and non-bank financial institutions	**50,721**	32,242
— Foreign-invested banks and non-bank financial institutions	**29,063**	27,409
Gross balances	**95,423**	83,105
Less: Allowances for impairment losses on balances with		
— PRC state-owned banks and non-bank financial institutions	**(400)**	(634)
— PRC joint-stock banks and non-bank financial institutions	**(277)**	(286)
Total allowances for impairment losses	**(677)**	(920)
Net balances	**94,746**	82,185

(d) Movements of allowances for impairment losses

	Six months ended 30 June 2007	Year ended 31 December 2006
As at 1 January	**920**	1,464
Charge for the six months/year	**2**	9
Write-offs	**(245)**	(553)
As at 30 June/31 December	**677**	920

(Expressed in millions of Renminbi unless otherwise stated)

14 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysed by nature

	As at 30 June 2007	As at 31 December 2006
Corporate loans	**2,323,807**	2,112,751
Personal loans	**695,368**	599,340
Discounted bills	**145,590**	160,738
Finance leases	**802**	780
Gross loans and advances to customers	**3,165,567**	2,873,609
Less: Allowances for impairment losses (Note 14(b))	**(84,697)**	(77,633)
Net loans and advances to customers	**3,080,870**	2,795,976

(b) Movements of allowances for impairment losses

	Six months ended 30 June 2007			
	Allowances for loans and advances	Allowances for impaired loans and advances		
	which are collectively assessed	which are collectively assessed	which are individually assessed	Total
As at 1 January	22,133	13,930	41,570	77,633
Write-offs	—	(74)	(3,258)	(3,332)
Transfers out (note)	—	(1)	(314)	(315)
Recoveries	—	—	47	47
Charge for the period				
— reclassification	—	(6,750)	6,750	—
— new impairment allowances charged to income statement	4,026	472	8,931	13,429
— impairment allowances released to income statement	—	—	(1,781)	(1,781)
Unwinding of discount	—	—	(984)	(984)
As at 30 June	26,159	7,577	50,961	84,697

(Expressed in millions of Renminbi unless otherwise stated)

14 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

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

	Year ended 31 December 2006			
	Allowances for loans and advances	Allowances for impaired 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)
Transfers 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

Note:

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

(Expressed in millions of Renminbi unless otherwise stated)

14 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

(c) Loans and advances to customers and allowances

	As at 30 June 2007				
	(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	3,117	—	—	3,117	—
— non-financial institutions	3,069,040	10,780	82,630	3,162,450	2.95%
	3,072,157	10,780	82,630	3,165,567	2.95%
Less: Allowances for impairment losses on loans and advances to					
— financial institutions	(16)	—	—	(16)	
— non-financial institutions	(26,143)	(7,577)	(50,961)	(84,681)	
	(26,159)	(7,577)	(50,961)	(84,697)	
Net loans and advances to					
— financial institutions	3,101	—	—	3,101	
— non-financial institutions	3,042,897	3,203	31,669	3,077,769	
	3,045,998	3,203	31,669	3,080,870	

(Expressed in millions of Renminbi unless otherwise stated)

14 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

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

	As at 31 December 2006				
	(note (i)) Loans and advances for which allowances are collectively assessed	(note (ii)) Impaired loans and advances: for which allowances are collectively assessed	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	

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 substandard, doubtful or loss); or*
- *collectively; that is portfolios of homogeneous loans (including personal loans and advances which are graded substandard, doubtful or loss).*

(iii) *As at and prior to 31 December 2006, the impairment allowance for corporate loans and advances graded at substandard was collectively assessed. With effect from 1 January 2007, the Group commenced to individually assess the impairment allowance for corporate loans and advances graded at substandard. Consequently, a reclassification of the opening balance of the collective impairment allowance of the respective loans and advances has been made to the individual impairment allowances.*

(iv) *The definitions of the loan classifications stated in notes (i) and (ii) above are set out in Note 32(a).*

(v) *There were no impaired loans and advances to financial institutions as at 30 June 2007 and 31 December 2006.*

(vi) *As at 30 June 2007, the loans and advances for which the impairment allowances were individually assessed amounted to RMB82,630 million. The fair value of collaterals held against these loans and advances amounted to RMB30,944 million. The fair value of collaterals was estimated by management based on the latest available external valuations adjusted by taking into account the current realisation experience as well as market situation. The covered portion and uncovered portion of these loans and advances were RMB23,747 million and RMB58,883 million respectively. The individual impairment allowances made against these loans and advances were RMB50,961 million. Comparative figures on collateral value are not required for the first time adoption under the Banking (Disclosure) Rules in Hong Kong.*

(Expressed in millions of Renminbi unless otherwise stated)

14 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

(d) Analysed by legal form of borrowers

	As at 30 June 2007	As at 31 December 2006
Corporate loans to		
— State-owned enterprises	**1,050,258**	961,253
— Joint-stock enterprises	**403,306**	391,587
— Private enterprises	**375,225**	325,810
— Foreign invested enterprises	**255,431**	224,851
— Collectively-controlled enterprises	**45,404**	45,888
— Jointly-owned enterprises	**18,817**	18,308
— Others	**175,366**	145,054
Subtotal	**2,323,807**	2,112,751
Personal loans	**695,368**	599,340
Discounted bills	**145,590**	160,738
Finance leases	**802**	780
Gross loans and advances to customers	**3,165,567**	2,873,609
Less: Allowances for impairment losses on loans and advances	**(84,697)**	(77,633)
Net loans and advances to customers	**3,080,870**	2,795,976

(Expressed in millions of Renminbi unless otherwise stated)

15 INVESTMENTS

	As at 30 June 2007	As at 31 December 2006
Receivables (Note 15(a))	**520,103**	546,357
Held-to-maturity debt securities (Note 15(b))	**1,131,235**	1,038,713
Available-for-sale		
— debt securities (Note 15(c))	**462,467**	309,089
— equity investments (Note 15(d))	**9,218**	9,617
	471,685	318,706
Investment securities	**2,123,023**	1,903,776
Trading debt securities (Note 15(e))	**11,018**	5,616
Total	**2,134,041**	1,909,392

(a) Receivables

	As at 30 June 2007	As at 31 December 2006
Due from issuers in Mainland China:		
Government		
— special government bond (note (i))	**49,200**	49,200
— others	**530**	530
The PBC (notes (ii) and (iv))	**154,656**	186,631
Policy banks	**53,503**	54,833
Cinda (note (iii))	**247,000**	247,000
Banks	**12,932**	7,573
Others	**2,282**	590
Total	**520,103**	546,357

15 INVESTMENTS *(Continued)*

(a) Receivables *(Continued)*

Notes:

(i) This represents a non-negotiable bond of a nominal value of RMB49,200 million issued by the MOF in 1998 to strengthen the capital base of China Construction Bank ("CCB"). The bond matures in 2028 and bears a fixed interest rate of 2.25% per annum.

(ii) Due from the PBC includes:

- *a non-transferable bill of a nominal value of RMB63,354 million issued specifically to CCB as part of its restructuring (the "Restructuring") on 30 December 2003 as approved by the State Council. 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 PBC bill. The bill matures in June 2009 and bears interest at a fixed rate of 1.89% per annum. The PBC has the right to early settle the bill;*

- *a non-transferable bill of 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 PBC to act as the receiver in respect of the liquidation of a trust and investment company (Note 23(b)). The bill had a fixed rate of interest of 1.89% per annum. The bill matured on 30 June 2007; 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 PBC approved the Bank's use of the special government bond and the bill of nominal values of RMB63,354 million and RMB593 million respectively issued by the PBC as eligible assets equivalent to the surplus deposit reserve at PBC for clearing purpose.

(v) All debt securities included as Receivables are unlisted.

(Expressed in millions of Renminbi unless otherwise stated)

15 INVESTMENTS *(Continued)*

(b) Held-to-maturity debt securities

	As at 30 June 2007	As at 31 December 2006
Issued by:		
Governments		
— in Mainland China	**262,677**	247,281
— outside Mainland China	**25,149**	25,636
The PBC	**458,173**	391,853
Policy banks		
— in Mainland China	**213,573**	199,164
— outside Mainland China	**4,941**	7,244
Banks and non-bank financial institutions		
— in Mainland China	**17,099**	17,110
— outside Mainland China	**90,277**	94,930
Public sector entities outside Mainland China	**54,129**	52,230
Others		
— in Mainland China (note)	**1,724**	72
— outside Mainland China	**3,493**	3,193
Total	**1,131,235**	1,038,713
Listed in Hong Kong	**2,908**	2,989
Listed outside Hong Kong	**79,973**	84,044
Unlisted	**1,048,354**	951,680
Total	**1,131,235**	1,038,713
Market value of listed securities	**81,508**	86,344

Note:

Others in Mainland China as at 30 June 2007 represent debt securities issued by state-owned enterprises and joint-stock enterprises of RMB1,114 million (as at 31 December 2006: RMB72 million) and RMB610 million (as at 31 December 2006: Nil) respectively.

(Expressed in millions of Renminbi unless otherwise stated)

15 INVESTMENTS *(Continued)*

(c) Available-for-sale debt securities

	As at 30 June 2007	As at 31 December 2006
Issued by:		
Governments		
— in Mainland China	**15,252**	6,532
— outside Mainland China	**22,045**	24,344
The PBC	**275,489**	141,642
Central banks outside Mainland China	**1,458**	—
Policy banks		
— in Mainland China	**25,715**	14,240
— outside Mainland China	**1,506**	1,623
Banks and non-bank financial institutions		
— in Mainland China	**1,364**	864
— outside Mainland China	**71,066**	73,874
Public sector entities outside Mainland China	**28,064**	25,174
Others		
— in Mainland China (note)	**12,302**	14,555
— outside Mainland China	**8,206**	6,241
Total	**462,467**	309,089
Listed in Hong Kong	**1,425**	1,872
Listed outside Hong Kong	**51,732**	52,893
Unlisted	**409,310**	254,324
Total	**462,467**	309,089

Note:

Others in Mainland China as at 30 June 2007 represent debt securities issued by state-owned enterprises and joint-stock enterprises of RMB6,903 million (as at 31 December 2006: RMB8,449 million) and RMB5,399 million (as at 31 December 2006: RMB6,106 million) respectively.

(Expressed in millions of Renminbi unless otherwise stated)

15 INVESTMENTS *(Continued)*

(d) Available-for-sale equity investments

	As at 30 June 2007	As at 31 December 2006
Debt equity swap investments (note)	7,293	7,550
Other equity investments	1,925	2,067
Total	9,218	9,617
Listed in Hong Kong	1,572	1,825
Listed outside Hong Kong	89	—
Unlisted	7,557	7,792
Total	9,218	9,617

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 PBC on 5 July 1999, commercial banks are prohibited from being involved in 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.

(Expressed in millions of Renminbi unless otherwise stated)

15 INVESTMENTS *(Continued)*

(e) Trading debt securities

	As at 30 June 2007	As at 31 December 2006
Issued by:		
Governments		
— in Mainland China	**210**	486
— outside Mainland China	**279**	207
The PBC	**2,166**	—
Policy banks		
— in Mainland China	**1,791**	116
— outside Mainland China	**—**	139
Banks and non-bank financial institutions outside Mainland China	**4,348**	3,253
Public sector entities outside Mainland China	**12**	—
Others		
— in Mainland China (note)	**1,346**	986
— outside Mainland China	**866**	429
	11,018	5,616
Listed in Hong Kong	**273**	227
Listed outside Hong Kong	**2,612**	1,691
Unlisted	**8,133**	3,698
Total	**11,018**	5,616

Note:

Others in Mainland China as at 30 June 2007 represent debt securities issued by state-owned enterprises and joint-stock enterprises of RMB481 million (as at 31 December 2006: RMB799 million) and RMB865 million (as at 31 December 2006: RMB187 million) respectively.

(Expressed in millions of Renminbi unless otherwise stated)

16 SUBSIDIARIES AND ASSOCIATE

(a) Interest in subsidiaries

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group, and have been included in the scope of the consolidated financial statements of the Group. All shares held are ordinary.

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")	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

(b) 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 Group	Principal activities
QBE Hongkong and Shanghai Insurance Company, Limited	Hong Kong	19.9 million ordinary shares of HK$1 each	25.50%	Insurance

(Expressed in millions of Renminbi unless otherwise stated)

17 PROPERTY AND EQUIPMENT

	Bank premises	Construction in progress	Computer equipment	Others	Total
Cost or deemed cost:					
As at 1 January 2007	41,512	1,548	14,629	8,630	66,319
Additions	199	672	548	459	1,878
Disposals	(103)	—	(553)	(474)	(1,130)
Transfers	46	(281)	116	119	—
As at 30 June 2007	41,654	1,939	14,740	8,734	67,067
Accumulated depreciation and impairment losses:					
As at 1 January 2007	(5,204)	(5)	(6,554)	(1,519)	(13,282)
Depreciation charges	(831)	—	(1,479)	(1,046)	(3,356)
Disposals	33	—	547	440	1,020
As at 30 June 2007	(6,002)	(5)	(7,486)	(2,125)	(15,618)
Net carrying value:					
As at 30 June 2007	35,652	1,934	7,254	6,609	51,449

(Expressed in millions of Renminbi unless otherwise stated)

17 PROPERTY AND EQUIPMENT *(Continued)*

	Bank premises	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

Note:

As at 30 June 2007, ownership documentation for the Group's bank premises with a net carrying value of RMB2,845 million (as at 31 December 2006: RMB3,442 million) was being finalised.

(Expressed in millions of Renminbi unless otherwise stated)

17 PROPERTY AND EQUIPMENT *(Continued)*

The net carrying values of bank premises of the Group at the balance sheet date are analysed by the remaining terms of the leases as follows:

	As at 30 June 2007	As at 31 December 2006
Long term leases (over 50 years), held in Hong Kong	**121**	123
Medium term leases (10–50 years), held in Mainland China	**35,380**	35,942
Short term leases (less than 10 years), held in Mainland China	**151**	243
Total	**35,652**	36,308

18 GOODWILL

	As at 30 June 2007	As at 31 December 2006
As at 1 January	**1,743**	—
Addition through acquisition of subsidiary	**—**	1,743
Exchange adjustment	**(54)**	—
As at 30 June/31 December	**1,689**	1,743

The goodwill arose from the acquisition of CCB Asia on 29 December 2006.

19 DEFERRED TAX

(a) Analysed by nature

	As at 30 June 2007	As at 31 December 2006
Deferred tax assets	**4,395**	2,701
Deferred tax liabilities	**(36)**	(25)
Net balance	**4,359**	2,676

(Expressed in millions of Renminbi unless otherwise stated)

19 DEFERRED TAX *(Continued)*

(b) Movement of deferred tax

The components of deferred tax assets/(liabilities) recognised in the consolidated balance sheet and the movements during the six months ended 30 June 2007 and the year ended 31 December 2006 are as follows:

	In Mainland China			Outside Mainland China		
	Deferral or amortisation of subordinated bonds issue costs	Fair value adjustments for securities (note (i))	Allowances for loans and advances to customers and debt securities	Fair value adjustments for securities (note (i))	Others	Deferred tax assets/ (liabilities)
As at 1 January 2007	**(27)**	**645**	**2,064**	**(25)**	**19**	**2,676**
Recognised in income statement	**2**	**—**	**1,272**	**—**	**(6)**	**1,268**
Recognised in equity	**—**	**828**	**—**	**(3)**	**—**	**825**
Effect of change in tax rate						
— recognised in income statement	**6**	**—**	**(271)**	**—**	**—**	**(265)**
— recognised in equity	**—**	**(149)**	**—**	**4**	**—**	**(145)**
As at 30 June 2007	**(19)**	**1,324**	**3,065**	**(24)**	**13**	**4,359**
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

Notes:

(i) Unrealised gains or losses arising from fair value adjustments for securities at fair value through profit and loss and derivatives are taxed when recognised. Fair value adjustments for available-for-sale securities are subject to tax when realised.

(ii) The Group did not have significant unrecognised deferred taxation at the balance sheet date.

(Expressed in millions of Renminbi unless otherwise stated)

20 OTHER ASSETS

	As at 30 June 2007	As at 31 December 2006
Interest receivable		
— debt securities	22,151	15,193
— loans and advances to customers	7,406	5,509
— others	545	590
	30,102	21,292
Land use rights	17,857	18,064
Repossessed assets	1,348	1,453
Intangible assets	1,050	1,131
Others	8,353	7,247
Total	58,710	49,187

21 AMOUNTS DUE TO BANKS AND NON-BANK FINANCIAL INSTITUTIONS

(a) Analysed by nature

	As at 30 June 2007	As at 31 December 2006
Balances under repurchase agreements	42,046	3,905
Money market takings	33,260	25,548
Deposits	474,094	214,515
Total	549,400	243,968

(Expressed in millions of Renminbi unless otherwise stated)

21 AMOUNTS DUE TO BANKS AND NON-BANK FINANCIAL INSTITUTIONS *(Continued)*

(b) Analysed by geographical location

	As at 30 June 2007	As at 31 December 2006
Balances payable on demand		
— banks in Mainland China	7,664	11,854
— non-bank financial institutions in Mainland China	442,276	190,533
	449,940	202,387
— banks outside Mainland China	96	128
— non-bank financial institutions outside Mainland China	631	53
	727	181
Term deposits		
— banks in Mainland China	13,031	13,993
— non-bank financial institutions in Mainland China	19,568	6,819
	32,599	20,812
— banks outside Mainland China	40,142	14,677
— non-bank financial institutions outside Mainland China	25,992	5,911
	66,134	20,588
Total	549,400	243,968

(Expressed in millions of Renminbi unless otherwise stated)

21 AMOUNTS DUE TO BANKS AND NON-BANK FINANCIAL INSTITUTIONS *(Continued)*

(c) Analysed by legal form of counterparty

	As at 30 June 2007	As at 31 December 2006
Balances with		
— PRC policy banks	2,422	89
— PRC state-owned banks and non-bank financial institutions	113,969	30,995
— PRC joint-stock banks and non-bank financial institutions	339,226	175,109
— foreign-invested banks and non-bank financial institutions	93,783	37,775
Total	549,400	243,968

22 DEPOSITS FROM CUSTOMERS

(a) Analysed by nature

	As at 30 June 2007	As at 31 December 2006
Demand deposits		
— corporate customers	1,945,249	1,781,875
— personal customers	925,048	834,809
	2,870,297	2,616,684
Time deposits		
— corporate customers	778,376	715,743
— personal customers	1,399,612	1,388,829
	2,177,988	2,104,572
Total	5,048,285	4,721,256

(Expressed in millions of Renminbi unless otherwise stated)

22 DEPOSITS FROM CUSTOMERS *(Continued)*

(b) Analysed by geographical segments

	As at 30 June 2007	As at 31 December 2006
Yangtze River Delta	**1,064,006**	984,000
Pearl River Delta	**788,439**	735,391
Bohai Rim	**991,256**	924,942
Central	**872,221**	810,662
Western	**825,356**	776,246
Northeastern	**382,888**	369,657
Head office	**69,205**	72,828
Outside Mainland China	**54,914**	47,530
Total	**5,048,285**	4,721,256

The definitions of geographical segments are set out in Note 31(b).

23 OTHER LIABILITIES AND PROVISIONS

	As at 30 June 2007	As at 31 December 2006
Interest payable		
— deposits from customers	**35,776**	33,293
— others	**2,128**	1,012
	37,904	34,305
Salaries and welfare payables (Note 23(a))	**10,743**	10,373
Supplementary retirement benefit obligations	**6,091**	5,889
Foreign exchange option premium payable (Note 32(d))	**2,770**	5,496
Payables to Jianyin (Notes 23(b) and 33(a))	**5,434**	5,320
Dormant accounts	**4,844**	4,571
Business tax and other tax payables	**4,383**	4,076
Securities underwriting and redemption payable	**5,552**	2,701
Litigation provisions (Note 23(c))	**1,336**	1,637
Payment and collection clearance account	**888**	1,462
Settlement accounts	**1,327**	1,285
Dividend payable	**35,714**	—
Others	**7,262**	7,201
Total	**124,248**	84,316

(Expressed in millions of Renminbi unless otherwise stated)

23 OTHER LIABILITIES AND PROVISIONS *(Continued)*

(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:

	As at 30 June 2007	As at 31 December 2006
Payables to defined contribution retirement schemes	**1,469**	1,591

(b) Payables to Jianyin

The balance as at 30 June 2007 included a payable of RMB5,353 million (as at 31 December 2006: RMB5,307 million) to China Jianyin Investment Limited ("Jianyin"), arising from the receipt of a bill issued by the PBC with a nominal value of RMB21,000 million (Note 15(a)), less advances made and expenses incurred by CCB for the liquidation of a trust and investment company, plus the interest accrual on such excess portion.

(c) Litigation provisions

	Six months ended 30 June 2007	Year ended 31 December 2006
As at 1 January	**1,637**	1,802
Charge for the six months/year	**138**	230
Payments made	**(439)**	(395)
As at 30 June/31 December	**1,336**	1,637

(Expressed in millions of Renminbi unless otherwise stated)

24 SUBORDINATED BONDS ISSUED

The carrying value of the Group's subordinated bonds issued upon the approval of the PBC and the China Banking Regulatory Commission (the "CBRC") are as follows:

	Note	**As at 30 June 2007**	As at 31 December 2006
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		**(77)**	(83)
Net carrying value		**39,923**	39,917

Notes:

(i) The interest rate per annum on the subordinated fixed rate bonds issued in August 2004 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 issued in August 2004 is the PBC 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 in August 2009 to 2.75% for the next five years.

(iii) The interest rate per annum on the subordinated fixed rate bonds issued in September 2004 is 4.95%. The Group has an option to redeem the bonds on 22 September 2009. If they are not redeemed early, the interest rate of the bonds will increase in September 2009 to 7.95% per annum for the next five years.

(iv) The interest rate per annum on the subordinated floating rate bonds issued in December 2004 is the weighted average 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 in December 2009 to 3.00% for the next five years.

(v) The interest rate per annum on the subordinated fixed rate bonds issued in December 2004 is 4.95%. The Group has an option to redeem the bonds on 27 December 2009. If the bonds are not redeemed early, the interest rate will increase in December 2009 to 7.95% per annum for the next five years.

(Expressed in millions of Renminbi unless otherwise stated)

25 EQUITY

(a) Share capital

	Six months ended 30 June 2007		Year ended 31 December 2006	
	Number of shares	**Amount**	Number of shares	Amount
Registered, issued and fully paid:				
Ordinary shares of RMB1 each	**224,689**	**224,689**	224,689	224,689

All ordinary shares rank *pari passu* with the same rights and benefits.

(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.

(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 applicable accounting standards in the PRC 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.

(Expressed in millions of Renminbi unless otherwise stated)

25 EQUITY *(Continued)*

(c) Surplus reserves *(Continued)*

Subject to the approval of shareholders, statutory and discretionary surplus reserves 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.

(e) General reserve

The general reserve of the Group at the balance sheet date as set up based upon:

	As at 30 June 2007	As at 31 December 2006
MOF's requirements (note (i))	**31,093**	10,284
Hong Kong Banking Ordinance requirements (note (ii))	**260**	56
China Securities Regulatory Commission requirements (note (iii))	**11**	2
Overseas regulatory body requirements	**1**	1
	31,365	10,343

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 considers 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 through appropriations of profit after tax.

(iii) Pursuant to a notice of China Securities Regulatory Commission [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.

(Expressed in millions of Renminbi unless otherwise stated)

25 EQUITY *(Continued)*

(f) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

26 PROFIT DISTRIBUTIONS

(a) Profit appropriations and distributions other than dividends declared during the period/year

	Six months ended 30 June 2007	Year ended 31 December 2006	Six months ended 30 June 2006
Appropriations to			
— statutory surplus reserve fund	**3,355**	4,632	—
— general reserve	**21,022**	11	9
	24,377	4,643	9

(Expressed in millions of Renminbi unless otherwise stated)

26 PROFIT DISTRIBUTIONS *(Continued)*

(b) Dividends payable to equity shareholders of the Bank attributable to the period/year

	Six months ended 30 June 2007	Year ended 31 December 2006	Six months ended 30 June 2006
Interim cash dividend approved before the balance sheet date of RMB0.067 per ordinary share (note)	**15,054**	—	—
Special cash dividend approved after the balance sheet date of RMB0.072716 per ordinary share (Note 26(d))	**16,339**	—	—
Final cash dividend approved after the balance sheet date of RMB0.092 per ordinary share (Note 26(c))	**—**	20,671	—
	31,393	20,671	—

Note:

In accordance with the resolution approved in the Annual General Meeting of the Bank on 13 June 2007, 45% of the profit after tax for the six months ended 30 June 2007, 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. This dividend was recognised as a liability on 30 June 2007.

(c) Dividends payable to equity shareholders of the Bank attributable to the previous year, approved during the period/year

	Six months ended 30 June 2007	Year ended 31 December 2006	Six months ended 30 June 2006
Final cash dividend RMB0.092 per ordinary share (2006: RMB0.015 per ordinary share) (note)	**20,671**	3,370	3,370

Note:

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. In the Annual General Meeting held on 13 June 2007, the shareholders approved the above 2006 final dividend with a total amount of approximately RMB20,671 million payable to those on the register of shareholders as at 21 May 2007.

(Expressed in millions of Renminbi unless otherwise stated)

26 PROFIT DISTRIBUTIONS *(Continued)*

(d) Plan for distribution of accumulated undistributed profits

In addition to the interim dividend, in the Extraordinary General Meeting held on 23 August 2007, the shareholders approved the distribution of all the accumulated undistributed profits, as determined under PRC GAAP or IFRS, whichever is lower, of the Bank as at 30 June 2007 (after the 2007 interim dividend distribution as disclosed above) to all shareholders prior to the issuance of its A shares. The above special cash dividend is RMB0.072716 per share with an aggregate amount of RMB16,339 million.

27 NOTE TO UNAUDITED CONSOLIDATED CASH FLOW STATEMENT

Cash and cash equivalents

	As at 30 June 2007	As at 31 December 2006	As at 30 June 2006
Cash	**27,927**	30,191	26,902
Surplus deposit reserve	**102,453**	103,767	96,030
Amounts due from banks and non-bank financial institutions	**94,746**	82,185	97,075
Less:			
— amounts due over three months when acquired	**(10,051)**	(15,376)	(38,978)
— balances under resale agreements	**(56,907)**	(33,278)	(8,500)
	27,788	33,531	49,597
Total	**158,168**	167,489	172,529

28 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 reimbursements from the customers.

(Expressed in millions of Renminbi unless otherwise stated)

28 COMMITMENTS AND CONTINGENT LIABILITIES *(Continued)*

(a) Credit commitments *(Continued)*

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 represent the maximum potential loss that would be recognised at the balance sheet date if counterparties failed completely to perform as contracted.

	As at 30 June 2007	As at 31 December 2006
Contractual amounts		
Loan commitments		
— with an original maturity of under one year	**35,254**	28,370
— with an original maturity of one year or over	**227,885**	209,167
	263,139	237,537
Guarantees and letters of credit	**319,817**	250,944
Acceptances	**145,822**	112,678
Credit card commitments	**71,603**	53,810
Others	**44,508**	6,306
	844,889	661,275

These commitments and contingent liabilities have off-balance sheet credit risk. Before the commitments are fulfilled or expired, the management assesses and makes 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.

	As at 30 June 2007	As at 31 December 2006
Credit risk weighted amounts of contingent liabilities and commitments	**401,793**	303,508

The credit risk weighted amounts refer to the amounts as computed in accordance with the rules set out by the CBRC and depend on the status of the counterparties 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 been taken into account the effects of bilateral netting arrangements.

(Expressed in millions of Renminbi unless otherwise stated)

28 COMMITMENTS AND CONTINGENT LIABILITIES *(Continued)*

(b) Capital commitments

The Group had the following authorised capital commitments in respect of purchase of property and equipment at the balance sheet date:

	As at 30 June 2007	As at 31 December 2006
Purchase of property and equipment		
— contracted for	**1,473**	1,978
— not contracted for	**11,778**	982
Total	**13,251**	2,960

(c) Operating lease commitments

The Group leases certain properties under operating leases, which typically run for an initial period of one to five years and may include an option to renew the lease when all terms are renegotiated. At the balance sheet date, the future minimum lease payments under non-cancellable operating leases for premises were as follows:

	As at 30 June 2007	As at 31 December 2006
Within one year	**1,666**	1,710
After one year but within five years	**3,785**	3,511
After five years	**1,571**	1,463
Total	**7,022**	6,684

(d) Outstanding litigations and disputes

As at 30 June 2007, the Group was the defendant in certain pending litigations and disputes with gross claims of RMB2,752 million (as at 31 December 2006: RMB2,566 million). Provisions have been made for the estimated losses of such litigations based upon the opinions of the Group's internal and external legal counsel (Note 23(c)). The Group considers that the provisions made are reasonable and adequate.

(Expressed in millions of Renminbi unless otherwise stated)

28 COMMITMENTS AND CONTINGENT LIABILITIES *(Continued)*

(e) Underwriting obligations

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

	As at 30 June 2007	As at 31 December 2006
Underwriting obligations	**350**	1,540

(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 notional amount 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 PBC. The redemption price may be different from the fair value of similar instruments traded at the redemption date.

The redemption obligations below represent the nominal value of government bonds underwritten and sold by the Group, but not yet matured at the balance sheet date:

	As at 30 June 2007	As at 31 December 2006
Redemption obligations	**86,873**	92,243

(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 23(c)), the Group has not made other material provisions in respect of the above commitments and contingent liabilities at the balance sheet date.

(Expressed in millions of Renminbi unless otherwise stated)

29 PLEDGED ASSETS

(a) Financial assets pledged as collateral

	As at 30 June 2007	As at 31 December 2006
Government bonds	41,219	3,877
Corporate bonds	3,461	1,594
	44,680	5,471

The related secured liabilities are recorded as amounts due to central banks, or amounts due to banks and non-bank financial institutions with similar carrying values at the balance sheet date. These transactions are conducted under usual and customary terms to standard borrowing.

(b) Collateral accepted as security for assets

	As at 30 June 2007	As at 31 December 2006
Government bonds	348	—

The Group holds collateral for resale agreements transactions. These transactions are conducted under usual and customary terms to standard lending and the Group is permitted to sell or repledge these collaterals in the absence of default for the transactions at the balance sheet date.

30 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.

(Expressed in millions of Renminbi unless otherwise stated)

30 TRANSACTIONS ON BEHALF OF CUSTOMERS *(Continued)*

(a) Entrusted lending business *(Continued)*

At the balance sheet date, the entrusted assets and liabilities were as follows:

	As at 30 June 2007	As at 31 December 2006
Entrusted loans	**346,174**	319,266
Entrusted funds	**346,174**	319,266

(b) Wealth management services

The Group's wealth management services to customers mainly represent sales of wealth management products to corporate and personal banking customers. The funds obtained from wealth management services are invested in investment products, including government bonds, PBC bills, notes issued by policy banks, commercial papers, trust loans and IPO shares. All the risks associated with these products are borne by the customers investing in these products. The Group only earns commission which represents charges 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 sheet. 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".

At the balance sheet date, the assets and liabilities under wealth management services were as follows:

	As at 30 June 2007	As at 31 December 2006
Investments under wealth management services	**23,572**	6,980
Funds from wealth management services	**23,572**	6,980

31 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 revenue and result 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 revenue, result, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment revenue, 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 six months/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.

(Expressed in millions of Renminbi unless otherwise stated)

31 SEGMENT REPORTING *(Continued)*

(a) Business segments *(Continued)*

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.

	Six months ended 30 June 2007					
	Corporate banking	Personal banking	Treasury business	Others and unallocated	Elimination	Total
External net interest income/(expense)	58,225	(2,729)	32,669	1,048	—	89,213
Internal net interest (expense)/income	(7,471)	27,019	(18,239)	(1,309)	—	—
Net interest income/(expense)	50,754	24,290	14,430	(261)	—	89,213
Net fee and commission income	3,121	7,905	1,264	370	—	12,660
Net trading gain	—	—	247	—	—	247
Dividend income	—	—	—	76	—	76
Net gain arising from investment securities	—	—	134	415	—	549
Other operating income/(loss)	98	1	(3,608)	550	—	(2,959)
Operating income	53,973	32,196	12,467	1,150	—	99,786
Operating expenses						
— depreciation and amortisation	(1,435)	(2,113)	(260)	(46)	—	(3,854)
— others	(14,511)	(15,780)	(1,901)	(1,229)	—	(33,421)
	(15,946)	(17,893)	(2,161)	(1,275)	—	(37,275)
	38,027	14,303	10,306	(125)	—	62,511
Provisions for impairment losses	(10,043)	(1,605)	(139)	(182)	—	(11,969)
Profit/(loss) before tax	27,984	12,698	10,167	(307)	—	50,542
Capital expenditure	730	1,075	132	26	—	1,963
	As at 30 June 2007					
Segment assets	2,727,699	701,348	2,553,995	165,719	(30,970)	6,117,791
Segment liabilities	2,831,542	2,633,095	87,342	271,044	(30,970)	5,792,053

(Expressed in millions of Renminbi unless otherwise stated)

31 SEGMENT REPORTING *(Continued)*

(a) Business segments *(Continued)*

	Six months ended 30 June 2006					
	Corporate banking	Personal banking	Treasury business	Others and unallocated	Elimination	Total
External net interest income/(expense)	48,032	(6,842)	24,359	(264)	—	65,285
Internal net interest (expense)/income	(10,003)	24,225	(13,581)	(641)	—	—
Net interest income/(expense)	38,029	17,383	10,778	(905)	—	65,285
Net fee and commission income	2,538	3,138	517	81	—	6,274
Net trading gain	—	—	71	58	—	129
Dividend income	—	—	—	192	—	192
Net gain arising from investment securities	—	—	49	623	—	672
Other operating income/(loss)	62	—	(2,449)	699	—	(1,688)
Operating income	40,629	20,521	8,966	748	—	70,864
Operating expenses						
— depreciation and amortisation	(1,590)	(1,739)	(189)	(9)	—	(3,527)
— others	(12,258)	(10,873)	(1,105)	(1,753)	—	(25,989)
	(13,848)	(12,612)	(1,294)	(1,762)	—	(29,516)
	26,781	7,909	7,672	(1,014)	—	41,348
Provisions for impairment losses	(6,636)	(1,662)	—	(236)	—	(8,534)
Profit/(loss) before tax	20,145	6,247	7,672	(1,250)	—	32,814
Capital expenditure	457	722	71	20	—	1,270
	As at 30 June 2006					
Segment assets	2,507,040	524,388	2,039,287	124,902	(29,375)	5,166,242
Segment liabilities	2,328,124	2,360,347	66,229	135,680	(29,375)	4,861,005

31 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 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.

(Expressed in millions of Renminbi unless otherwise stated)

31 SEGMENT REPORTING *(Continued)*

(b) Geographical segments *(Continued)*

	Six months ended 30 June 2007									
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central	Western	Northeastern	Head office	Overseas	Elimination	Total
External net interest income	15,783	7,208	9,403	8,901	9,816	2,663	34,080	1,359	—	89,213
Internal net interest income/(expense)	3,340	4,438	4,882	4,232	3,221	2,469	(22,065)	(517)	—	—
Net interest income	19,123	11,646	14,285	13,133	13,037	5,132	12,015	842	—	89,213
Net fee and commission income	2,324	2,171	2,220	2,219	1,986	971	564	205	—	12,660
Net trading gain/(loss)	19	31	82	11	4	18	(38)	120	—	247
Dividend income	1	—	21	17	21	3	10	3	—	76
Net gain arising from investment securities	—	—	146	—	—	—	375	28	—	549
Other operating income/(loss)	81	87	102	124	146	33	(3,787)	255	—	(2,959)
Operating income	21,548	13,935	16,856	15,504	15,194	6,157	9,139	1,453	—	99,786
Operating expenses										
— depreciation and amortisation	(733)	(511)	(577)	(692)	(577)	(274)	(479)	(11)	—	(3,854)
— others	(6,562)	(4,743)	(5,353)	(6,028)	(5,699)	(2,524)	(2,038)	(474)	—	(33,421)
	(7,295)	(5,254)	(5,930)	(6,720)	(6,276)	(2,798)	(2,517)	(485)	—	(37,275)
	14,253	8,681	10,926	8,784	8,918	3,359	6,622	968	—	62,511
Provisions for impairment losses	(1,980)	(1,937)	(2,649)	(2,055)	(1,762)	(1,156)	(405)	(25)	—	(11,969)
Profit before tax	12,273	6,744	8,277	6,729	7,156	2,203	6,217	943	—	50,542
Capital expenditure	287	154	395	228	316	134	368	81	—	1,963
	As at 30 June 2007									
Segment assets	1,235,305	942,380	1,098,708	924,715	867,349	404,550	2,769,963	100,001	(2,225,180)	6,117,791
Segment liabilities	1,227,442	937,691	1,092,854	920,671	862,912	402,894	2,473,752	99,017	(2,225,180)	5,792,053
Off-balance sheet credit commitments	230,670	115,536	170,132	119,329	131,928	35,720	13,849	27,725	—	844,889

(Expressed in millions of Renminbi unless otherwise stated)

31 SEGMENT REPORTING *(Continued)*

(b) Geographical segments *(Continued)*

	Six months ended 30 June 2006									
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central	Western	Northeastern	Head office	Overseas	Elimination	Total
External net interest income	10,965	4,825	6,993	6,616	6,739	1,899	26,544	704	—	65,285
Internal net interest income/(expense)	2,941	3,341	4,519	3,121	2,985	1,787	(18,207)	(487)	—	—
Net interest income	13,906	8,166	11,512	9,737	9,724	3,686	8,337	217	—	65,285
Net fee and commission income	1,318	1,081	1,159	1,089	854	403	306	64	—	6,274
Net trading gain	—	—	—	—	—	—	71	58	—	129
Dividend income	1	4	3	163	8	1	—	12	—	192
Net gain arising from investment securities	45	4	138	89	159	67	122	48	—	672
Other operating income/(loss)	146	81	81	156	231	21	(2,432)	28	—	(1,688)
Operating income	15,416	9,336	12,893	11,234	10,976	4,178	6,404	427	—	70,864
Operating expenses										
— depreciation and amortisation	(670)	(467)	(518)	(619)	(529)	(262)	(454)	(8)	—	(3,527)
— others	(5,291)	(3,545)	(4,780)	(4,693)	(4,547)	(2,048)	(960)	(125)	—	(25,989)
	(5,961)	(4,012)	(5,298)	(5,312)	(5,076)	(2,310)	(1,414)	(133)	—	(29,516)
	9,455	5,324	7,595	5,922	5,900	1,868	4,990	294	—	41,348
Provisions for impairment losses	(248)	(930)	(3,152)	(1,509)	(1,666)	(870)	(133)	(26)	—	(8,534)
Profit before tax	9,207	4,394	4,443	4,413	4,234	998	4,857	268	—	32,814
Capital expenditure	136	93	65	233	229	254	252	8	—	1,270
	As at 30 June 2006									
Segment assets	1,009,774	742,423	953,243	795,470	758,929	360,065	2,142,940	83,012	(1,679,614)	5,166,242
Segment liabilities	1,003,799	739,138	949,360	791,607	755,265	358,743	1,860,581	82,126	(1,679,614)	4,861,005
Off-balance sheet credit commitments	195,698	89,758	132,207	111,740	93,137	35,668	16,740	15,579	—	690,527

32 RISK MANAGEMENT

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk

To identify, evaluate, monitor and manage risk, the Group has designed an effective governance framework, internal control policies and processes, and implements them across the Group subject to the approval of the Risk Management and Internal Control Committee and the President.

(a) Credit risk

Credit risk management

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its contractual obligations or commitments to the Group. It arises primarily from credit business. Credit risk will also arise if the asset value attributable to the Group is impaired by the lowering of ratings for issuers of debt securities.

Credit business

With respect to governance, the Risk Management and Internal Control Committee organizes and coordinates the Group's risk management and internal control and guides its members to fulfil their duties. The Risk Management Department, under the supervision of the Risk Management and Internal Control Committee, is responsible for formulating credit risk management policies; the Risk Monitoring Department is responsible for monitoring the implementation of credit risk management policies; and the Credit Approval Department is responsible for organising credit approval and customer credit ratings activities. The risk management departments share and coordinate the work of the Corporate Banking Department, the Housing Finance and Personal Lending Department, the Special Assets Resolution Department and the Legal Department in terms of the application of credit risk management.

The Group has put in place a complete credit policy framework by setting industry credit approval criteria, as well as credit acceptance and rejection policies for corporate clients. The Group's credit risk management covers various areas of its corporate operations including pre-lending evaluation, credit approval and post-lending management. In respect of pre-lending evaluation, the Group assesses customer credit ratings and prepares customer evaluation reports by referencing to its internal rating system and performs integrated analysis on potential benefits and risks of loans to form the evaluation reports. For credit approval, all credit extensions are subject to the approval of credit approval officers. In terms of post-lending management, the Group continually monitors granted loans, immediately reports any adverse events that may significantly affect a borrower's repayment ability, and implements effective measures to prevent and control related risks. The Group has adopted a parallel operating mechanism between risk managers and customer relationship managers for the credit business for medium to large sized corporate customers, who are involved in all credit processes.

32 RISK MANAGEMENT *(Continued)*

(a) Credit risk *(Continued)*

Credit business *(Continued)*

In terms of its personal credit operations, the Group relies on credit assessment of applicants as the basis for loan approval. In dealing with personal credit, customer relationship managers are required to assess the income level, credit history, and repayment ability of the applicant. The customer relationship managers then forward the application and their recommendations to the loan approval departments or personnel for consent. Stressing the post-lending monitoring of personal loans, the Group focuses on borrowers' repayment ability, the status of collateral and any changes to their value. Once a loan becomes overdue, the Group starts the recovery process according to the standard personal loan recovery procedures.

Collateral

To mitigate risks, the Group requests customers to provide appropriate collateral and guarantees. It also sets guidelines for specific types of collaterals or their suitability of charging against credit risks, as well as determining evaluation parameters. Collateral structures and legal covenants are regularly reviewed to ensure that they still serve their intended purposes and conform to market practices.

Loan grading classification

The Group adopts a loan risk classification approach to manage the loan portfolio risk. Loans are classified as normal, special mention, substandard, doubtful and loss according to their level of risk. Substandard, doubtful, and loss loans are considered to be impaired loans and advances, when one or more event demonstrates there is objective evidence of impairment and causes losses. The allowance for impairment loss on impaired loans and advances is collectively or individually assessed 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 and 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.

(Expressed in millions of Renminbi unless otherwise stated)

32 RISK MANAGEMENT *(Continued)*

(a) Credit risk *(Continued)*

Distribution of loans and advances to customers and amounts due from banks and non-bank financial institutions by credit quality are as follows:

	Loans and advances to customers	
	As at 30 June 2007	As at 31 December 2006
Carrying amount		
Individually assessed and impaired		
Gross amount	**82,630**	58,423
Allowances for impairment	**(50,961)**	(41,570)
Carrying amount	**31,669**	16,853
Collectively assessed and impaired		
Gross amount	**10,780**	35,976
Allowances for impairment (Note 14(c)(iii))	**(7,577)**	(13,930)
Carrying amount	**3,203**	22,046
Overdue but not impaired		
— less than 90 days	**29,813**	22,543
— 90–180 days	**3,210**	3,714
— over 180 days	**587**	760
Gross amount	**33,610**	27,017
Allowances for impairment (note)	**(1,120)**	(1,128)
Carrying amount	**32,490**	25,889
Neither overdue nor impaired		
Gross amount	**3,038,547**	2,752,193
Allowances for impairment (note)	**(25,039)**	(21,005)
Carrying amount	**3,013,508**	2,731,188
Total carrying amount	**3,080,870**	2,795,976

Note:

The balances represent collectively assessed impairment allowances.

(Expressed in millions of Renminbi unless otherwise stated)

32 RISK MANAGEMENT *(Continued)*

(a) Credit risk *(Continued)*

	Amounts due from banks and non-bank financial institutions	
	As at 30 June 2007	As at 31 December 2006
Carrying amount		
Individually assessed and impaired		
— grade A to AAA	**40**	49
— grade B to BBB	**5**	17
— unrated	**822**	1,100
Gross amount	**867**	1,166
Allowances for impairment	**(677)**	(920)
Carrying amount	**190**	246
Neither overdue nor impaired		
— grade A to AAA	**33,166**	36,418
— grade B to BBB	**3,420**	1,542
— unrated	**57,970**	43,979
Carrying amount	**94,556**	81,939
Total carrying amount	**94,746**	82,185

(Expressed in millions of Renminbi unless otherwise stated)

32 RISK MANAGEMENT *(Continued)*

(a) Credit risk *(Continued)*

The Group adopts a credit rating approach to manage the risk of debt securities portfolio held by the operations in Mainland China. Debt securities are rated with reference to Bloomberg Composite, or major rating agencies where the issuers of the securities are located. The carrying amount of debt securities analysed by the rating agency designations at the balance sheet date are as follows:

	As at 30 June 2007	As at 31 December 2006
Debt securities held by operations in Mainland China		
Bloomberg Composite		
— AAA	**186,603**	190,500
— AA- to AA+	**54,246**	51,759
— A- to A+	**46,242**	53,608
— lower than A-	**1,193**	487
Subtotal	**288,284**	296,354
Agency ratings		
— AAA	**279,551**	269,984
— AA- to AA+	**2,485**	1,805
— A- to A+ (note)	**1,521,243**	1,301,748
— lower than A-	**107**	1,571
Subtotal	**1,803,386**	1,575,108
Subtotal of debt securities held by operations in Mainland China	**2,091,670**	1,871,462
Debt securities held by operations outside Mainland China	**33,153**	28,313
Total	**2,124,823**	1,899,775

Note:

This includes debt securities issued by the PRC government, PBC and PRC policy banks amounted to RMB1,508,518 million (as at 31 December 2006: RMB1,288,036 million).

(Expressed in millions of Renminbi unless otherwise stated)

32 RISK MANAGEMENT *(Continued)*

(a) Credit risk *(Continued)*

Loans and advances to customers and the balance secured by collaterals analysed by economic sector concentrations at the balance sheet date are presented in the tables below:

	As at 30 June 2007			As at 31 December 2006		
	Gross loan balance	%	Balance secured by collaterals	Gross loan balance	%	Balance secured by collaterals
Operations in Mainland China						
Corporate loans including finance leases						
— manufacturing	564,902	18.34	217,801	510,427	18.21	198,746
— transportation, storage and postal services	350,015	11.36	166,436	326,715	11.66	155,076
— production and supply of electric power, gas and water	349,036	11.33	84,541	318,493	11.36	75,068
— real estate	326,234	10.59	269,729	302,290	10.79	243,707
— construction	106,792	3.47	36,620	96,580	3.45	32,965
— water, environment and public utility management	106,510	3.46	45,675	92,173	3.29	38,369
— education	86,734	2.82	23,962	77,458	2.76	19,547
— wholesale and retail trade	81,987	2.66	38,525	73,526	2.62	35,445
— leasing and commercial services	70,006	2.27	26,151	63,659	2.27	23,211
— mining	65,384	2.12	9,829	55,909	2.00	8,454
— telecommunications, computer services and software	34,370	1.12	2,685	38,962	1.39	2,515
— others	112,113	3.64	58,676	101,769	3.63	52,121
Corporate loans	2,254,083	73.18	980,630	2,057,961	73.43	885,224
Personal loans	680,571	22.10	641,864	585,085	20.88	542,619
Discounted bills	145,403	4.72	1,218	159,368	5.69	1,426
Total loans and advances to customers	3,080,057	100.00	1,623,712	2,802,414	100.00	1,429,269

(Expressed in millions of Renminbi unless otherwise stated)

32 RISK MANAGEMENT *(Continued)*

(a) Credit risk *(Continued)*

	As at 30 June 2007			As at 31 December 2006		
	Gross loan balance	%	Balance secured by collaterals	Gross loan balance	%	Balance secured by collaterals
Operations outside Mainland China						
Corporate loans including finance leases						
— real estate	18,003	21.05	14,234	15,292	21.48	11,942
— telecommunications, computer services and software	12,278	14.36	596	4,393	6.17	1,682
— manufacturing	10,523	12.31	3,020	9,903	13.91	1,877
— transportation, storage and postal services	9,429	11.03	7,334	8,448	11.87	6,120
— production and supply of electric power, gas and water	5,502	6.43	4,695	3,081	4.33	2,438
— leasing and commercial services	3,734	4.37	2,853	3,686	5.18	3,348
— wholesale and retail trade	3,440	4.02	2,373	5,005	7.03	2,026
— others	7,617	8.91	4,374	5,762	8.09	3,443
Corporate loans	70,526	82.48	39,479	55,570	78.06	32,876
Personal loans	14,797	17.30	14,398	14,255	20.02	13,832
Discounted bills	187	0.22	76	1,370	1.92	1,262
Total loans and advances to customers	85,510	100.00	53,953	71,195	100.00	47,970
Total gross loans and advances to customers	3,165,567			2,873,609		

Impaired loans and individual and collective impairment allowances in respect of economic sectors which constitute 10% or more of total loans and advances to customers are as follows:

	As at 30 June 2007			As at 31 December 2006		
	Gross impaired loans	Individual impairment allowances	Collective impairment allowances	Gross impaired loans	Individual impairment allowances	Collective impairment allowances
Manufacturing	28,430	(19,381)	(5,379)	28,829	(16,447)	(6,673)
Transportation, storage and postal services	6,036	(3,430)	(3,271)	4,932	(2,076)	(3,378)
Production and supply of electric power, gas and water	4,756	(2,810)	(3,571)	4,348	(1,584)	(3,656)
Real estate	16,765	(8,170)	(3,045)	18,326	(7,059)	(4,297)

(Expressed in millions of Renminbi unless otherwise stated)

32 RISK MANAGEMENT *(Continued)*

(a) Credit risk *(Continued)*

Loans and advances to customers and the balance secured by collaterals analysed by geographical sector concentrations at the balance sheet date are presented in the table below:

	As at 30 June 2007			As at 31 December 2006		
	Gross loan balance	**%**	**Balance secured by collaterals**	Gross loan balance	%	Balance secured by collaterals
Yangtze River Delta	**791,854**	**25.01**	**443,160**	714,373	24.86	386,639
Pearl River Delta	**456,400**	**14.42**	**278,116**	399,229	13.89	240,548
Bohai Rim	**588,256**	**18.58**	**256,034**	549,755	19.13	218,515
Central	**507,517**	**16.03**	**258,695**	463,670	16.14	227,095
Western	**517,820**	**16.36**	**295,597**	469,428	16.34	268,608
Northeastern	**190,770**	**6.03**	**91,283**	177,771	6.19	86,622
Head office	**27,440**	**0.87**	**827**	28,188	0.98	1,242
Outside Mainland China	**85,510**	**2.70**	**53,953**	71,195	2.47	47,970
Gross loans and advances to customers	**3,165,567**	**100.00**	**1,677,665**	2,873,609	100.00	1,477,239

Impaired loans and individual and collective impairment allowances in respect of geographical sector concentrations which constitute 10% or more of total advances to customers are as follows:

	As at 30 June 2007			As at 31 December 2006		
	Gross impaired loans	**Individual impairment allowances**	**Collective impairment allowances**	Gross impaired loans	Individual impairment allowances	Collective impairment allowances
Yangtze River Delta	**12,648**	**(6,273)**	**(7,443)**	13,057	(5,167)	(7,500)
Pearl River Delta	**13,697**	**(7,866)**	**(4,315)**	14,086	(6,280)	(4,697)
Bohai Rim	**23,562**	**(12,546)**	**(7,763)**	23,992	(11,087)	(7,915)
Central	**15,572**	**(8,599)**	**(5,347)**	15,803	(6,454)	(5,976)
Western	**16,692**	**(9,555)**	**(5,728)**	16,627	(7,706)	(6,520)

The definitions of geographical segments are set out in Note 31(b).

(Expressed in millions of Renminbi unless otherwise stated)

32 RISK MANAGEMENT *(Continued)*

(a) Credit risk *(Continued)*

The table below shows a breakdown of total credit extended by the Group by type of collateral:

	As at 30 June 2007	As at 31 December 2006
Loans secured by monetary assets	**292,723**	265,074
Loans secured by tangible assets, other than monetary assets	**1,384,942**	1,212,165
Guaranteed loans	**737,018**	681,167
Unsecured loans	**750,884**	715,203
Gross loans and advances to customers	**3,165,567**	2,873,609
Less: Allowances for impairment losses	**(84,697)**	(77,633)
Net loans and advances to customers	**3,080,870**	2,795,976

Repossessed assets

The Group obtained assets by taking possession of collateral held as security, calling guarantees or other credit enhancements. The carrying amount of such assets as at the balance sheet date were as follows:

	As at 30 June 2007	As at 31 December 2006
Land	**363**	440
Buildings	**729**	811
Other assets	**256**	202
	1,348	1,453

32 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, stock prices and other prices. Market risk arises from both the Group's trading and non-trading business.

The Group is exposed to primarily structural interest rate risk arising from commercial banking and position risk arising from treasury transactions. Interest rate risk is inherent in many of its businesses and largely arises from mismatches between the re-pricing dates of assets and liabilities.

The Group's foreign exchange exposure mainly comprises exposures from foreign currency portfolios within treasury proprietary investments, and currency exposures from its overseas branches.

The Group considers the market risk arising from commodity or stock prices in respect of its investment portfolios as immaterial.

The Risk Management Department is responsible for formulating the Group's market risk management policies. In accordance with the Group's risk management 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 related risk of interest rates and foreign exchange rates. The Treasury Department manages the head office's RMB and foreign currency investment portfolios, conducts proprietary and customer-driven transactions, as well as implements market risk management policies and rules. The Audit Department assesses whether market risk management is adequate or effective.

The Group monitors market risk separately in respect of trading, available-for-sale debt securities and other non-trading portfolios. Trading portfolios include exchange rate and interest rate derivatives as well as trading securities. The historical simulation model for the Value-at-risk ("VaR") analysis is a major tool used by the Bank to measure and monitor the market risk of its trading business and available-for-sale debt securities. Net interest income sensitivity analysis, interest rate gap analysis and foreign exchange risk concentration analysis are the major tools used by the Group to monitor the market risk of its overall businesses.

VaR analysis

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 the Treasury Department calculate interest rate VaR for the Bank's debt investments as well as interest rate and exchange rate VaR for the Bank's derivatives. By reference to historical movements in market rates and prices, the Treasury Department calculates VaR on a daily basis for foreign currency portfolios (at 99% confidence level, with a 1-day holding period), and on a monthly basis for RMB portfolios.

(Expressed in millions of Renminbi unless otherwise stated)

32 RISK MANAGEMENT *(Continued)*

(b) Market risk *(Continued)*

VaR analysis (Continued)

A summary of the VaR of the Bank's trading portfolios and available-for-sale debt securities as at 30 June 2007 and 30 June 2006 and during the respective periods is as follows:

	Six months ended 30 June 2007			
	As at 30 June 2007	Average	Maximum	Minimum
RMB trading portfolios				
Interest rate risk	2	3	4	2
RMB available-for-sale debt securities				
Interest rate risk	218	178	218	93
Foreign currency trading portfolios				
Interest rate risk	34	57	96	34
Foreign currency risk	12	7	4	12
Diversification	(15)	(8)	(3)	(15)
Total	31	56	97	31
Foreign currency available-for-sale debt securities				
Interest rate risk	666	473	666	381

(Expressed in millions of Renminbi unless otherwise stated)

32 RISK MANAGEMENT *(Continued)*

(b) Market risk *(Continued)*

VaR analysis (Continued)

	Six months ended 30 June 2006			
	As at 30 June 2006	Average	Maximum	Minimum
RMB trading portfolios				
Interest rate risk	6	4	6	2
RMB available-for-sale debt securities				
Interest rate risk	249	273	320	128
Foreign currency trading portfolios				
Interest rate risk	172	135	172	120
Foreign currency risk	7	8	7	8
Diversification	(8)	(8)	(8)	(9)
Total	171	135	171	119
Foreign currency available-for-sale debt securities				
Interest rate risk	278	582	682	266

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

- A 1-day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period;
- A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is one percent probability that losses could exceed the VaR;
- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day;
- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature; and
- The VaR measure is dependent upon the Group's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

32 RISK MANAGEMENT *(Continued)*

(b) Market risk *(Continued)*

Net interest income sensitivity analysis

In monitoring interest rate risk on its overall non-derivative financial assets and liabilities, the Bank regularly measures its future net interest income sensitivity, for the next twelve months from the reporting date, to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant balance sheet position) using a 100 basis points parallel fall or rise in all yield curves, other than that applicable to balances with central banks.

The interest rate sensitivity analysis is for management purposes only and is assessed based on simplified scenarios and assumption including that all positions will be retained and rolled over upon maturity. This interest rate sensitivity analysis indicates estimated net interest income movements under various predicted yield curve scenarios and subject to the Bank's current interest rate exposures. However, the effect has not taken into account the possible risk management measures undertaken by the Treasury Department or related business departments to mitigate interest rate risk. In practice, the Treasury Department strives to reduce loss arising from interest rate risk while increasing its net income. The estimated figures have also assumed that the interest rates on various maturities will move within similar ranges, and therefore do not reflect any potential effect on net interest income in the event that some interest rates may change and others remain unchanged.

Interest rate repricing gap analysis

Interest rate risk is inherent in many of the Group's businesses. It mainly arises from mismatches between the 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 repricing gaps, and the impact on the Group's net interest income and economic value under different interest rates scenarios. 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.

(Expressed in millions of Renminbi unless otherwise stated)

32 RISK MANAGEMENT *(Continued)*

(b) Market risk *(Continued)*

Interest rate repricing gap analysis *(Continued)*

The following tables indicate the effective interest rates for the six months ended 30 June 2007 and the year ended 31 December 2006, and the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities at the balance sheet date.

	As at 30 June 2007						
	Effective interest rate (note (i))	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one and five years	More than five years
Assets							
Cash and balances with the central bank	1.71%	679,141	27,927	651,214	—	—	—
Amounts due from banks and non-bank financial institutions	3.14%	94,746	—	87,181	7,328	237	—
Loans and advances to customers (note (ii))	6.08%	3,080,870	—	772,083	2,241,841	35,832	31,114
Investments	3.16%	2,134,041	30,218	312,479	620,162	794,317	376,865
Others	—	128,993	128,993	—	—	—	—
Total assets	4.56%	6,117,791	187,138	1,822,957	2,869,331	830,386	407,979
Liabilities							
Amounts due to the central bank	1.89%	1,306	—	1,306	—	—	—
Amounts due to banks and non-bank financial institutions	1.96%	549,400	—	525,698	23,652	50	—
Deposits from customers	1.49%	5,048,285	28,949	3,574,087	1,120,700	316,148	8,401
Certificates of deposit issued	4.43%	10,017	—	1,753	3,236	5,028	—
Others	—	143,122	143,122	—	—	—	—
Subordinated bonds issued	4.78%	39,923	—	3,852	6,067	30,004	—
Total liabilities	1.55%	5,792,053	172,071	4,106,696	1,153,655	351,230	8,401
Asset-liability gap	3.01%	325,738	15,067	(2,283,739)	1,715,676	479,156	399,578

(Expressed in millions of Renminbi unless otherwise stated)

32 RISK MANAGEMENT *(Continued)*

(b) Market risk *(Continued)*

Interest rate repricing gap analysis *(Continued)*

	As at 31 December 2006						
	Effective interest rate (note (i))	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one and five years	More than five years
Assets							
Cash and balances with the central bank	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 the central bank	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

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 RMB55,837 million as at 30 June 2007 (as at 31 December 2006: RMB52,520 million). Overdue amount 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 principal was not yet due.

32 RISK MANAGEMENT *(Continued)*

(b) Market risk *(Continued)*

Foreign exchange risk concentration analysis

The Group's foreign exchange exposure mainly comprises exposures that arise from proprietary investments in the treasury's portfolio, and currency exposures originated by the Group's overseas branches.

The Group has invested the capital injection of US$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 Investment Limited ("Huijin"), pursuant to which the Bank purchased from Huijin an option to sell to Huijin a maximum of US$22,500 million in exchange for Renminbi at a pre-determined exchange rate of US$1 to RMB8.2769. The option is being exercised in 2007 in twelve equal monthly instalments. The total option premium of RMB5,587 million is being paid to Huijin in twelve equal monthly instalments in 2007.

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 PBC, and the foreign exchange rate 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 remaining option as at 30 June 2007 was RMB7,749 million (as at 31 December 2006: RMB12,058 million), which is included in derivatives (Note 32(d)). The premium payable in respect of the remaining option is stated at its discounted value of RMB2,770 million as at 30 June 2007 (as at 31 December 2006: RMB5,496 million) and is included under other liabilities and provisions (Note 23).

The change in the fair value of the option and the realised exchange gain for the exercised portion recognised as net foreign exchange gain for the six months ended 30 June 2007 was approximately RMB1,754 million (for the six months ended 30 June 2006: RMB729 million).

The Group manages other currency risk by spot and forward foreign exchange transactions and by matching its foreign currency denominated assets with corresponding liabilities in the same currency.

(Expressed in millions of Renminbi unless otherwise stated)

32 RISK MANAGEMENT *(Continued)*

(b) Market risk *(Continued)*

Foreign exchange risk concentration analysis *(Continued)*

The Group's total equity is 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:

	As at 30 June 2007			
	RMB	USD	Others	Total
Assets				
Cash and balances with central banks	669,871	6,648	2,622	679,141
Amounts due from banks and non-bank financial institutions	78,567	12,191	3,988	94,746
Loans and advances to customers	2,911,455	100,522	68,893	3,080,870
Investments	1,811,641	297,956	24,444	2,134,041
Others	119,779	5,521	3,693	128,993
Total assets	5,591,313	422,838	103,640	6,117,791
Liabilities				
Amounts due to the central bank	21	—	1,285	1,306
Amounts due to banks and non-bank financial institutions	466,209	73,999	9,192	549,400
Deposits from customers	4,870,065	106,986	71,234	5,048,285
Certificates of deposit issued	—	2,515	7,502	10,017
Others	133,695	3,996	5,431	143,122
Subordinated bonds issued	39,923	—	—	39,923
Total liabilities	5,509,913	187,496	94,644	5,792,053
Net position	81,400	235,342	8,996	325,738

(Expressed in millions of Renminbi unless otherwise stated)

32 RISK MANAGEMENT *(Continued)*

(b) Market risk *(Continued)*

Foreign exchange risk concentration analysis *(Continued)*

	As at 31 December 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 the central bank	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

(c) Liquidity risk

Liquidity risk arises when there is unavailability of funds timely and at reasonable prices to meet liabilities as they fall due. The Group's liquidity risk management objectives are to meet the requirements of financial regulators and to maintain reasonable liquidity for safeguarding external payments and satisfying business needs.

At the Group level, liquidity is managed and coordinated through the ALM. The ALM is responsible for formulation of 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.

(Expressed in millions of Renminbi unless otherwise stated)

32 RISK MANAGEMENT *(Continued)*

(c) Liquidity risk *(Continued)*

With the premise that a reasonable asset and liability structure has been established, the Group maintains diversified and stable funding sources, while holding an asset portfolio with high credit ratings and strong liquidity.

Currently, the Group mainly uses liquidity gap analysis to assess liquidity risk level. Moreover, it has also formulated contingency plans to ensure availability of funds for business development.

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.

	As at 30 June 2007						
	Repayable on demand	Less than three months	Between three months and one year	Between one and five years	More than five years	Undated/ overdue	Total
Assets							
Cash and balances with the central bank (note (i))	130,380	—	—	—	—	548,761	679,141
Amounts due from banks and non-bank financial institutions	15,382	71,798	7,329	237	—	—	94,746
Loans and advances to customers	30,403	368,928	907,594	926,664	801,155	46,126	3,080,870
Investments							
— receivables (note (ii))	21,000	9,991	26,742	379,788	82,582	—	520,103
— held-to-maturity debt securities	—	142,429	248,947	455,648	283,832	379	1,131,235
— available-for-sale investments (note (iii))	—	75,518	202,171	76,769	107,918	9,309	471,685
— trading debt securities (note (iii))	—	2,169	3,635	3,463	1,751	—	11,018
Others	13,564	13,775	21,103	1,669	667	78,215	128,993
Total assets	210,729	684,608	1,417,521	1,844,238	1,277,905	682,790	6,117,791
Liabilities							
Amounts due to the central bank	21	1,285	—	—	—	—	1,306
Amounts due to banks and non-bank financial institutions	450,800	74,898	23,652	50	—	—	549,400
Deposits from customers	2,905,627	693,273	1,118,749	317,616	13,020	—	5,048,285
Certificates of deposit issued	—	195	3,821	6,001	—	—	10,017
Others	57,333	39,567	38,161	6,761	1,264	36	143,122
Subordinated bonds issued	—	—	—	—	39,923	—	39,923
Total liabilities	3,413,781	809,218	1,184,383	330,428	54,207	36	5,792,053
(Short)/long position	(3,203,052)	(124,610)	233,138	1,513,810	1,223,698	682,754	325,738

(Expressed in millions of Renminbi unless otherwise stated)

32 RISK MANAGEMENT *(Continued)*

(c) Liquidity risk *(Continued)*

	As at 31 December 2006						
	Repayable on demand	Less than three months	Between three months and one year	Between one and five years	More than five years	Undated/ overdue	Total
Assets							
Cash and balances with the central bank (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	21,773	346,414	833,647	834,980	709,290	49,872	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 (note (iii))	—	58,853	112,038	50,633	87,565	9,617	318,706
— trading debt securities (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	170,976	632,110	1,353,761	1,619,202	1,128,454	544,008	5,448,511
Liabilities							
Amounts due to the central bank	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
(Short)/long position	(2,720,669)	(156,220)	323,679	1,268,448	1,070,983	543,983	330,204

Notes:

(i) For cash and balances with the central bank, the undated amount represents statutory deposit reserves and fiscal balances maintained with the PBC.

(ii) The receivables under the column "Repayable on demand" represents the PBC bills matured on 30 June 2007.

(iii) For available-for-sale investments and trading debt securities, the remaining term to maturity does not represent the Group's intended holding period.

(Expressed in millions of Renminbi unless otherwise stated)

32 RISK MANAGEMENT *(Continued)*

(c) Liquidity risk *(Continued)*

The following tables provide an analysis of the residual contractual maturities of financial liabilities of the Group at the balance sheet date.

	As at 30 June 2007						
	Carrying amount	Gross cash outflow	Repayable on demand	Less than three months	Between three months and one year	Between one and five years	More than five years
Non-derivative financial liabilities							
Amounts due to the central bank	**1,306**	**1,312**	**21**	**1,291**	**—**	**—**	**—**
Amounts due to banks and non-bank financial institutions	**549,400**	**550,566**	**451,019**	**75,374**	**24,120**	**53**	**—**
Deposits from customers	**5,048,285**	**5,131,044**	**2,907,021**	**701,954**	**1,153,712**	**352,061**	**16,296**
Certificates of deposit issued	**10,017**	**10,819**	**—**	**305**	**4,175**	**6,339**	**—**
Others	**72,457**	**72,457**	**28,828**	**25,082**	**18,357**	**—**	**190**
Subordinated bonds issued	**39,923**	**60,157**	**—**	**1,149**	**781**	**9,688**	**48,539**
	5,721,388	**5,826,355**	**3,386,889**	**805,155**	**1,201,145**	**368,141**	**65,025**

	As at 31 December 2006						
	Carrying amount	Gross cash outflow	Repayable on demand	Less than three months	Between three months and one year	Between one and five years	More than five years
Non-derivative financial liabilities							
Amounts due to the central bank	1,256	1,264	21	1,243	—	—	—
Amounts due to banks and non-bank financial institutions	243,968	244,246	203,957	35,259	4,766	264	—
Deposits from customers	4,721,256	4,798,777	2,642,368	741,627	1,026,295	371,543	16,944
Certificates of deposit issued	6,957	7,403	—	42	1,995	5,366	—
Others	36,549	36,549	23,008	6,530	6,227	546	238
Subordinated bonds issued	39,917	60,118	—	—	1,909	9,574	48,635
	5,049,903	5,148,357	2,869,354	784,701	1,041,192	387,293	65,817

The above tables show the undiscounted cash flows on the Group's financial liabilities on the basis of their earliest possible contractual maturity. The Group's expected cash flows on these instruments vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance.

32 RISK MANAGEMENT *(Continued)*

(d) 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 by entering into 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 as follows:

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 currencies at a certain date in the future.

(Expressed in millions of Renminbi unless otherwise stated)

32 RISK MANAGEMENT *(Continued)*

(d) 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.

	As at 30 June 2007 Notional amounts with remaining life of					Fair values	
	Less than three months	Between three months and one year	Between one and five years	More than five years	Total	Assets	Liabilities
Interest rate derivatives (note (i))	**19,625**	**152,924**	**46,090**	**25,471**	**244,110**	**2,428**	**1,070**
Currency derivatives (note (ii))	**173,120**	**229,254**	**28,443**	**—**	**430,817**	**10,210**	**3,182**
Total						**12,638**	**4,252**
						(note (iii))	

	As at 31 December 2006 Notional amounts with remaining life of					Fair values	
	Less than three months	Between three months and one year	Between one and five years	More than five years	Total	Assets	Liabilities
Interest rate derivatives (note (i))	19,852	37,273	38,988	19,158	115,271	1,107	1,040
Currency derivatives (note (ii))	131,155	338,979	2,325	—	472,459	13,407	1,675
Total						14,514	2,715
						(note (iii))	

Notes:

(i) Interest rate derivatives mainly comprised of interest rate swaps and cross-currency swaps.

(ii) Currency derivatives mainly comprised of spot, forwards, foreign exchange swaps and foreign exchange options. Foreign exchange swaps and foreign exchange options were entered into for economically hedging purpose.

(iii) The balance as at 30 June 2007 includes the fair value of the foreign exchange option, amounting to RMB7,749 million (as at 31 December 2006: RMB12,058 million). The premium payable in respect of the purchase of the above option is stated at a discounted value of RMB2,770 million (as at 31 December 2006: RMB5,496 million) and is included under other liabilities and provisions (Note 23).

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32 RISK MANAGEMENT *(Continued)*

(d) Derivatives *(Continued)*

The replacement costs and credit risk weighted amounts in respect of these derivatives are as follows:

Replacement costs

	As at 30 June 2007	As at 31 December 2006
Interest rate derivatives	2,428	1,107
Currency derivatives, net of option premium payable	7,440	7,911
	9,868	9,018

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.

Credit risk weighted amounts

	As at 30 June 2007	As at 31 December 2006
Interest rate derivatives	5,333	2,075
Currency derivatives	2,741	3,506
	8,074	5,581

The credit risk weighted amounts refer to the amounts as computed in accordance with the rules set out by the CBRC and depend on the status of the counterparties and the maturity characteristics. The effects of bilateral netting arrangements have been taken into account in calculating the credit risk weighted amounts.

32 RISK MANAGEMENT *(Continued)*

(e) 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. Major operational risk management measures currently adopted by the Group include:

- implementing the "Operational Risk Management Policy"; defining the segregation of duties, the management process and management principles; as well as constructing the Group's overall operational risk management framework;

- testing the self-assessment method for operational risk and processes in certain branches; carrying out statistical analysis on the Group's internal operational risk loss data; developing a regular reporting system for loss events; as well as beginning the initial preparation for the development of an operational risk loss database;

- establishing an internal reporting system for any staff misconduct which may adversely affect the Group's business. Under the system, statistics for staff misconduct are regularly reported to the Head Office, while significant incidents are required to be reported to the Head Office within 24 hours after their occurrence;

- establishing an incident management system. Following the analysis of past incidents, mechanisms for problem-solving and supervision, reporting, assessment, and responsibility investigation have been developed to consistently improve the incident prevention and correction system and to avoid any repeated incidents;

- amending and continuously improving the internal control system; enhancing staff training; implementing an accountability system to ensure compliance with policies and processes; as well as establishing relevant policies and procedures, in which the management is held responsible for any staff misconduct;

- strengthening a system of operational checks and balances between departments and different positions, as well as the centralized assignment and rotation of key personnel;

- developing the system's authorization management and business operational model;

(Expressed in millions of Renminbi unless otherwise stated)

32 RISK MANAGEMENT *(Continued)*

(e) Operational risk *(Continued)*

- backing-up data in the Group's key data processing system to minimize operational risks from an IT malfunction, and setting up a computer disaster recovery centre to automatically backup operational data; and

- forming an anti-money laundering division within the Compliance Department to bolster legal cash management, standardize account management, and improve anti-money laundering education and training to ensure all staff throughout the Bank have the necessary knowledge and basic skills to combat money laundering activities.

(f) Fair value

(i) Financial assets

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

Amounts due from central bank, banks and non-bank financial institutions

Amounts due from central bank, 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 PBC rates. Accordingly, their carrying values approximate the fair values.

Investments

Available-for-sale investments and debt securities at fair value through profit and 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.

	Carrying values		Fair values	
	As at 30 June 2007	As at 31 December 2006	**As at 30 June 2007**	As at 31 December 2006
Receivables	**520,103**	546,357	**514,917**	545,538
Held-to-maturity debt securities	**1,131,235**	1,038,713	**1,118,056**	1,045,201

32 RISK MANAGEMENT *(Continued)*

(f) Fair value *(Continued)*

(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 30 June 2007 was RMB40,576 million (as at 31 December 2006: RMB41,100 million), which was higher than their carrying value of RMB39,923 million (as at 31 December 2006: RMB39,917 million).

(g) Capital management

The Group's capital management comprises the management of the capital adequacy ratio, capital financing, and economic capital, of which the prime focus is capital adequacy ratio management.

The Group calculates capital adequacy ratio in accordance with the guidelines issued by the CBRC. These guidelines may have significant difference with the relevant requirements in Hong Kong or other jurisdictions. The capital of the Group is analysed into core capital and supplementary capital. The core capital mainly includes paid-up share capital of ordinary shares, capital reserve, surplus reserve, retained earnings, and minority interests, after the deduction of dividends declared by the Bank after the balance sheet date, as well as deductions of 100% of goodwill and 50% of unconsolidated equity investments. Supplementary capital includes general provisions and long-term subordinated bonds. According to a notice issued by the CBRC (Amendment to "Regulation Governing Capital Adequacy of Commercial Banks") on 3 July 2007, supplementary capital should include reserves arising from changes in the fair value of available-for-sale debt securities. The amounts were included in core capital for the capital adequacy ratio calculation as at 31 December 2006.

The CBRC requires that the capital adequacy ratio and core capital adequacy ratio for commercial banks shall not fall below 8% and 4% respectively. For commercial banks, supplementary capital shall not exceed 100% of core capital while long-term subordinated liabilities included in the supplementary capital should not exceed 50% of the core capital. When total positions of trading accounts exceed 10% of the on- and off-balance sheet total assets, or RMB8.5 billion, commercial banks must provide for market risk capital. At present, the Group is fully compliant with legal and regulatory requirements.

Capital adequacy ratio management is a core issue of capital management. The capital adequacy ratio reflects the Group's sound operations and risk management capability. The Group's capital adequacy ratio management objectives are to meet the legal and regulatory requirements, and to prudently determine the capital adequacy ratio under realistic exposures with reference to the capital adequacy ratio levels of leading global banks and the Group's operating situations.

32 RISK MANAGEMENT *(Continued)*

(g) Capital management *(Continued)*

The Group predicts, plans, and manages the capital adequacy ratio by using scenario models and stress tests based on its strategic development plans, business expansion needs, and risk exposure trends.

Capital allocation

Maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Group to particular businesses or activities. Account is also taken of synergies with other businesses and activities, the availability of management and other resources, and the fit of the activity with the Group's longer term strategic objectives. The Group's policies in respect of capital management and allocation are reviewed regularly by the board of directors.

The amount of capital allocated to each business or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities.

In such cases the capital requirements may be flexed to reflect differing risk profiles. The process of allocating capital to specific businesses and activities is undertaken by the ALM.

(Expressed in millions of Renminbi unless otherwise stated)

32 RISK MANAGEMENT *(Continued)*

(g) Capital management *(Continued)*

Capital allocation *(Continued)*

The Group's regulatory capital position calculated in accordance with the guidelines issued by the CBRC as at 30 June 2007 and 31 December 2006 were as follows:

	As at 30 June 2007	As at 31 December 2006
Core capital adequacy ratio (note (i))	**9.43%**	9.92%
Capital adequacy ratio (note (ii))	**11.34%**	12.11%
Components of capital base		
Core capital:		
— share capital	**224,689**	224,689
— capital reserve	**42,464**	40,852
— surplus reserve and general reserve	**45,853**	21,476
— retained earnings (note (iii))	**17,211**	22,421
— minority interests	**129**	95
	330,346	309,533
Supplementary capital:		
— general provision for doubtful debts	**31,848**	28,736
— revaluation reserve (note (iv))	**(4,608)**	—
— term subordinated bonds	**40,000**	40,000
	67,240	68,736
Total capital base before deductions	**397,586**	378,269
Deductions:		
— goodwill	**(1,689)**	(1,743)
— unconsolidated equity investments	**(1,947)**	(2,131)
Total capital base after deductions	**393,950**	374,395
Risk weighted assets (note (v))	**3,475,432**	3,091,089

32 RISK MANAGEMENT *(Continued)*

(g) Capital management *(Continued)*

Capital allocation *(Continued)*

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. The core capital as at 30 June 2007 was before the deduction of the special cash dividend of RMB16,339 million to all shareholders prior to the A share issuance (Note 26(d)). The core capital adequacy ratio would have been 8.96% should the above special cash dividend be deducted from core capital.

(ii) The capital adequacy ratio is calculated by dividing the total capital base after deductions by risk weighted assets. The capital as at 30 June 2007 was before the deduction of the special cash dividend of RMB16,339 million to all shareholders prior to the A share issuance (Note 26(d)). The capital adequacy ratio would have been 10.87% should the above special cash dividend be deducted from capital.

(iii) Retained earnings have been deducted by the dividend declared after the balance sheet date, except for the special cash dividend (Note 26(d)).

(iv) As at 30 June 2007, the reserves arising from changes in the fair value of available-for-sale debt securities are included in supplementary capital while which were included in the core capital for the calculation of capital adequacy ratio as at 31 December 2006.

(v) The balances of risk weighted assets include 12.5 times of the market risk capital.

33 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 30 June 2007 and 31 December 2006. 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 32(b)). The purpose of the option is to hedge against the Bank's currency risk arising from capital contributed by Huijin of US$22,500 million.

(Expressed in millions of Renminbi unless otherwise stated)

33 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(a) Huijin and companies under Huijin *(Continued)*

(i) Huijin *(Continued)*

Transactions during the six months ended 30 June 2007 and the corresponding balances outstanding at the balance sheet date with Huijin are as follows:

	Six months ended 30 June	
	2007	2006
Interest expense arising from:		
Deposits from customers	**777**	486

	As at 30 June 2007	As at 31 December 2006
Liabilities:		
Deposits from customers	**10,354**	24,616
Dividend payable	**21,966**	—
Interest payable	**20**	63
Total	**32,340**	24,679

(ii) Jianyin

As at 30 June 2007 and 31 December 2006, Jianyin, which is wholly owned by Huijin, 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.

(Expressed in millions of Renminbi unless otherwise stated)

33 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(a) Huijin and companies under Huijin *(Continued)*

(ii) Jianyin *(Continued)*

Transactions during the six months ended 30 June 2007 and the corresponding balances outstanding at the balance sheet date with Jianyin and its subsidiaries are as follows:

	Six months ended 30 June	
	2007	2006
Income or expenses:		
Interest income	**12**	—
Interest expenses	**119**	6
Other income (note (ii-1))	**41**	48
Operating expenses (note (ii-2))	**269**	105

	As at 30 June 2007	As at 31 December 2006
Assets or liabilities:		
Amounts due from banks and non-bank financial institutions	**67**	—
Investment securities	**693**	—
Loans and advances to customers	**195**	46
Other assets (note (ii-3))	**384**	275
Amounts due to banks and non-bank financial institutions (note (ii-4)	**53,550**	13,706
Other liabilities and provisions (Note 23)	**5,434**	5,320
Deposits from customers	**876**	1,130
Dividend payable	**3,290**	—

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.

(Expressed in millions of Renminbi unless otherwise stated)

33 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(a) Huijin and companies under Huijin *(Continued)*

(ii) Jianyin *(Continued)*

During the six months ended 30 June 2007, the Group did not acquire any property and equipment (year ended 31 December 2006: RMB120 million) from Jianyin and its subsidiaries.

As at 15 March 2007, the Group disposed of long outstanding receivables with a net book value of RMB73 million at a consideration of RMB92 million to Jianyin.

(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 six months ended 30 June 2007 and corresponding balances outstanding at the balance sheet date with these companies are as follows:

	Six months ended 30 June	
	2007	2006
Interest income arising from:		
Debt securities issued by these banks and non-bank financial institutions	**309**	306
Amounts due from these banks and non-bank financial institutions	**56**	32
Loans and advances to customers	**4**	—
	369	338
Interest expense arising from:		
Amounts due to these banks and non-bank financial institutions	**331**	72

(Expressed in millions of Renminbi unless otherwise stated)

33 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(a) Huijin and companies under Huijin *(Continued)*

(iii) Other companies under Huijin *(Continued)*

	As at 30 June 2007	As at 31 December 2006
Assets or liabilities:		
Debt securities issued by these banks and non-bank financial institutions	**16,001**	15,974
Amounts due from these banks and non-bank financial institutions	**4,040**	3,374
Loans and advances to customers	**189**	240
	20,230	19,588
Amounts due to these banks and non-bank financial institutions	**35,929**	16,934

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.

(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.

33 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions with other PRC state-owned entities *(Continued)*

These transactions are conducted in the ordinary course of the Group's banking business on terms similar to those that would have been entered into with non-state-owned entities. The Group has also established its pricing strategy and approval processes for major products and services, such as loans, deposits and commission income. 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.

(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 senior management.

The compensations in respect of Directors, Supervisors and senior management during the six months ended 30 June 2007 amounted to RMB10 million (six months ended 30 June 2006: RMB7 million).

(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 Note 23(a).

34 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.

35 COMPARATIVE FIGURES

Certain comparative figures have been re-classified to conform with current period's presentation.

(Expressed in millions of Renminbi unless otherwise stated)

(a) DIFFERENCES BETWEEN THE FINANCIAL STATEMENTS PREPARED UNDER IFRS AND THOSE PREPARED IN ACCORDANCE WITH PRC GAAP

China Construction Bank Corporation (the "Bank") prepares interim financial statements, which include the financial statements of the Bank and its subsidiaries (collectively the "Group"), in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34").

As a financial institution incorporated in the People's Republic of China (the "PRC"), the Group also prepares its financial statements for the six months ended 30 June 2007 in accordance with the Accounting Standards for Business Enterprises 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 period ended 30 June 2007 or total equity attributable to shareholders of the Bank as at 30 June 2007 between the Group's financial statements prepared under IAS 34 and PRC GAAP respectively.

(b) LIQUIDITY RATIOS

	As at 30 June 2007	**Average for six months ended 30 June 2007**	As at 30 June 2006	Average for six months ended 30 June 2006
Renminbi current assets to Renminbi current liabilities	**40.54%**	**39.80%**	43.34%	45.42%
Foreign currency current assets to foreign currency current liabilities	**215.15%**	**207.76%**	211.08%	177.63%

The above liquidity ratios are calculated in accordance with the formula promulgated by the China Banking Regulatory Commission. Prior to 1 July 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 restated to conform with current period's presentation.

The *Banking (Disclosure) Rules* (the "Rule") in Hong Kong became effective on 1 January 2007. The Rule requires the disclosure of average liquidity ratio, being the arithmetic mean of each calendar month liquidity ratio. The Group prepared liquidity ratio on a semiannual basis and the disclosed average liquidity ratio is the arithmetic mean of two consecutive liquidity ratios as at 31 December and 30 June.

(Expressed in millions of Renminbi unless otherwise stated)

(c) CURRENCY CONCENTRATIONS

	As at 30 June 2007			
	US Dollars	**HK Dollars**	**Others**	**Total**
Spot assets	**425,409**	**62,813**	**40,983**	**529,205**
Spot liabilities	**(187,496)**	**(68,175)**	**(26,469)**	**(282,140)**
Forward purchases	**168,232**	**22,949**	**13,299**	**204,480**
Forward sales	**(304,019)**	**(4,447)**	**(29,153)**	**(337,619)**
Net option position	**(85,655)**	**—**	**—**	**(85,655)**
Net long/(short) position	**16,471**	**13,140**	**(1,340)**	**28,271**
Net structural position	**1**	**439**	**31**	**471**

	As at 31 December 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

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.

(Expressed in millions of Renminbi unless otherwise stated)

(d) CROSS-BORDER CLAIMS

The Group is principally engaged in business operations within Mainland China, and regards all claims on third parties outside Mainland China as cross-border claims.

For the purpose of this unaudited supplementary financial information, Mainland China excludes the Hong Kong Special Administrative Region of the PRC ("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.

	As at 30 June 2007			
	Banks and non-bank financial institutions	**Public sector entities**	**Others**	**Total**
Asia Pacific excluding Mainland China	**21,360**	**2,920**	**35,794**	**60,074**
— of which attributed to Hong Kong	**6,754**	**1,992**	**11,872**	**20,618**
Europe	**37,990**	**119**	**7,857**	**45,966**
North and South America	**128,020**	**78,971**	**55,882**	**262,873**
	187,370	**82,010**	**99,533**	**368,913**

	As at 31 December 2006			
	Banks and non-bank financial institutions	Public sector entities	Others	Total
Asia Pacific excluding Mainland China	26,317	3,769	24,475	54,561
— of which attributed to Hong Kong	8,550	1,424	7,406	17,380
Europe	61,064	—	9,205	70,269
North and South America	127,769	76,069	56,004	259,842
	215,150	79,838	89,684	384,672

The above cross-border claims are disclosed in accordance with the latest requirements of HKMA. According to these requirements, "Others" includes the transactions with sovereign. Prior to 2007, these transactions are disclosed in "Public sectors". Comparative figures have been revised to conform with current period's presentation.

(Expressed in millions of Renminbi unless otherwise stated)

(e) GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES TO CUSTOMERS

	As at 30 June 2007	As at 31 December 2006
Gross loans and advances to customers which have been overdue with respect to either principal or interest for periods of:		
— between 3 and 6 months	**8,113**	9,798
— between 6 and 12 months	**13,175**	14,295
— over 12 months	**55,368**	53,536
Total	**76,656**	77,629
As a percentage of total gross loans and advances to customers:		
— between 3 and 6 months	**0.26%**	0.34%
— between 6 and 12 months	**0.42%**	0.50%
— over 12 months	**1.75%**	1.86%
Total	**2.43%**	2.70%

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 30 June 2007 and 31 December 2006.

As at 30 June 2007, loans and advances to customers of RMB64,285 million and RMB12,371 million of the above overdue loans and advances were subject to individual assessment and collective assessment for impairment respectively. The fair value of collaterals held against the individually assessed loans and advances to customers was RMB20,009 million. The fair value of collaterals was estimated by management based on the latest available external valuations adjusted by taking into account the current realisation experience and market situation. The covered portion and uncovered portion of these individually assessed loans were RMB14,759 million and RMB49,526 million respectively. The impairment allowance made against these individually assessed loans and advances were RMB44,874 million. Comparative figures on collateral value are not required for the first time adoption of the Rule.

(Expressed in millions of Renminbi unless otherwise stated)

(f) OVERDUE LOANS AND ADVANCES TO CUSTOMERS BY GEOGRAPHICAL SECTOR

	As at 30 June 2007	As at 31 December 2006
Yangtze River Delta	**8,685**	9,599
Pearl River Delta	**11,738**	12,498
Bohai Rim	**20,194**	21,468
Central	**13,335**	12,142
Western	**12,900**	12,954
Northeastern	**7,534**	6,374
Head office	**2,165**	2,439
Overseas	**105**	155
Total	**76,656**	77,629

The above analysis represents 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.

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.

(Expressed in millions of Renminbi unless otherwise stated)

(g) RESCHEDULED LOANS AND ADVANCES TO CUSTOMERS

	As at 30 June 2007	% of total loans and advances	As at 31 December 2006	% of total loans and advances
Rescheduled loans and advances to customers	**3,548**	**0.11%**	3,384	0.12%
Less: — rescheduled loans and advances to customers but overdue more than 90 days	**(2,425)**	**(0.08%)**	(1,929)	(0.07%)
Rescheduled loans and advances to customers overdue not more than 90 days	**1,123**	**0.03%**	1,455	0.05%

(h) NON-BANK MAINLAND CHINA EXPOSURE

The Bank is a commercial bank incorporated in the Mainland China with its banking business primarily conducted in the Mainland China. As at 30 June 2007, substantial amounts of the Bank's exposures arose from businesses with Mainland China entities or individuals. Analyses of various types of exposures by counterparty have been disclosed in the respective notes to the interim financial report.

Further Information

DIRECTORS AND SUPERVISORS

As at 30 June 2007, our directors were as follows:

Name	Position
Mr. Guo Shuqing	Chairman and executive director
Mr. Zhang Jianguo	Vice chairman, executive director and president
Mr. Zhao Lin	Executive director and vice president
Mr. Luo Zhefu	Executive director and vice president
Mr. Wang Yonggang	Non-executive director
Mr. Wang Yong[1]	Non-executive director
Ms. Wang Shumin	Non-executive director
Mr. Liu Xianghui	Non-executive director
Mr. Zhang Xiangdong	Non-executive director
Ms. Li Xiaoling[1]	Non-executive director
Mr. Gregory L. Curl	Non-executive director
Lord Peter Levene	Independent non-executive director
Mr. Song Fengming	Independent non-executive director
Ms. Elaine La Roche	Independent non-executive director
Mr. Tse Hau Yin, Aloysius	Independent non-executive director

1. *The appointment is subject to the approval of the CBRC.*

On 23 August 2007, the Bank's 2007 first extraordinary general meeting resolved to appoint Ms. Jenny Shipley and Mr. Wong Kai Man as independent non-executive directors of the Bank. Such appointments are subject to the CBRC's approval of the proposed amendments to the Bank's articles of association and shall become effective upon the CBRC's approval of such appointments.

As at 30 June 2007, our supervisors were as follows:

Name	Position
Mr. Xie Duyang	Chairman of the board of supervisors
Ms. Liu Jin	Supervisor
Mr. Jin Panshi	Supervisor
Ms. Cheng Meifen	Employee representative supervisor
Mr. Sun Zhixin	Employee representative supervisor
Ms. Ning Liming	Employee representative supervisor
Mr. Guo Feng	External supervisor
Mr. Dai Deming	External supervisor

DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2007, none of the directors and supervisors of the Bank had any interests or short positions in the shares, underlying shares of equity derivatives or debentures of the Bank or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) as required to be recorded in the register kept under Section 352 of the Securities and Futures Ordinance or to be notified to the Bank and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

As at 30 June 2007, the Bank had 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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 2007, the interests and short positions of substantial shareholders and other persons 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 were as follows:

	Number of H-shares held			% of total
Name	**Held directly**	**Held indirectly**	**Total holding**	**issued shares**
Huijin[1]	138,150,047,904	20,692,250,000	158,842,297,904	70.69%
China Jianyin Investment Limited ("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 Holdings (Private) Limited ("Temasek")[3]	—	13,576,203,750	13,576,203,750	6.04%
Fullerton Financial[4]	13,207,316,750	—	13,207,316,750	5.88%

1. *As Huijin directly controls more than one-third of the voting rights in the shareholders' meetings of Jianyin, in accordance with the Securities and Futures Ordinance, 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 19.9% of our issued and floating share capital (excluding any shares already held by BAC as at that date of exercise of the option), 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
Fullerton Financial Holdings Pte. Ltd	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 Fullerton Financial Holdings Pte. Ltd is a wholly-owned subsidiary of Temasek, in accordance with the Securities and Futures Ordinance, the interests directly held by Fullerton Financial Holdings Pte. Ltd are deemed to be indirect interests of Temasek.*

Save as disclosed above, as at 30 June 2007, in the register required to be kept under Section 336 of the Securities and Futures Ordinance, no other persons or corporations 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 Securities and Futures Ordinance.

DIVIDENDS

The Board was authorised by the shareholders at the Bank's 2006 annual general meeting held on 13 June 2007 to deal with the matters related to the declaration of interim dividend of 2007, which should be 45% of the net profit of the Bank for the six months ended 30 June 2007. In accordance with the above authorisation, the Board resolved at the Board meeting held on 24 August 2007 to declare a cash interim dividend of RMB0.067 per share (inclusive of applicable tax) for the six months ended 30 June 2007. The total amount is approximately RMB15,054 million.

The Board was authorised by the shareholders at the Bank's 2007 first extraordinary general meeting held on 23 August 2007 to deal with the matters related to the declaration of a special cash dividend, which should be the accumulated undistributed profits of the Bank as at 30 June 2007 (after deduction of 2007 interim dividend). The amount of such accumulated undistributed profits shall be the lesser of the amounts calculated in accordance with the PRC GAAP and International Financial Reporting Standards. In accordance with the above authorisation, the Board resolved at the Board meeting held on 24 August 2007 to declare a special cash dividend of RMB0.072716 per share (inclusive of applicable tax). The total amount is approximately RMB16,339 million.

The payment of the above dividends shall be made to shareholders whose names appear on the H-share register of the Bank on Thursday, 4 October 2007. According to the Articles of Association of the Bank, dividends will be denominated and declared in RMB. Dividends on H-shares for the Bank's promoters will be paid in RMB, and those for other shareholders will be paid in Hong Kong dollars. The relevant exchange rate will be the middle rate of RMB to Hong Kong dollar exchange rate as announced by the PBC on the date of declaration of dividend by the Board (RMB0.96921 equivalent to HK$1). Therefore, the interim cash dividend is HK$0.06912847 per H-share and the special cash dividend is HK$0.07502605 per H-share.

The Bank has appointed Bank of China (Hong Kong) Trustees Limited as the receiving agent in Hong Kong (the "Receiving Agent") and will pay to such Receiving Agent the above dividends declared for payment to holders of H-shares. The above dividends will be paid by the Receiving Agent and relevant cheques will be dispatched by our H-share registrar, Computershare Hong Kong Investor Services Limited, on around 10 October 2007 to holders of H-shares entitled to receive such dividends by ordinary post at their own risk.

CLOSURE OF REGISTER OF MEMBERS

The Bank's H-share register will be closed from Friday, 28 September 2007 to Thursday, 4 October 2007, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the dividends mentioned above, holders of H-shares whose transfers have not been registered must deposit the transfer documents together with the relevant share certificates at the H-share registrar of the Bank, Computershare Hong Kong Investor Services Limited, at or before 4:30 p.m. on Thursday, 27 September 2007. The address of Computershare Hong Kong Investor Services Limited is Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

PURCHASE, SALE AND REDEMPTION OF SHARES

During the six months ended 30 June 2007, neither the Bank nor any of its subsidiaries has purchased, sold or redeemed any shares of the Bank.

CORPORATE GOVERNANCE PRACTICES

Our Bank is committed to maintaining a high level of corporate governance. We have complied with the code provisions of the Code on Corporate Governance Practices ("Code") as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2007, and have substantially complied with the recommended best practices set out in the Code.

DIRECTORS' SECURITIES TRANSACTIONS

The Bank has adopted the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Listing Rules in relation to securities transactions by directors and supervisors.

Having specifically enquired with our directors and supervisors, the Bank confirms that all directors and supervisors have, during the six months ended 30 June 2007, complied with the provisions of this code of practice in relation to securities transactions by directors and supervisors.

AUDIT COMMITTEE

The audit committee has reviewed the accounting policies and practices adopted by the Bank and discussed affairs of internal control and financial reporting (including reviewing our unaudited consolidated interim financial information) with the senior management.

Corporate Information

Legal name in Chinese:	中國建設銀行股份有限公司
Legal name in English:	China Construction Bank Corporation
Registered address:	No. 25, Finance Street, Xicheng District, Beijing, China
Postcode:	100032
Principal place of business in Hong Kong:	44–45/F, Tower One, Lippo Centre, 89 Queensway, Admiralty, Hong Kong
Website:	www.ccb.com
Legal representative:	Guo Shuqing
Authorised representatives:	Zhang Jianguo Zhao Lin
Secretary to the Board:	Chen Caihong[1]
Company secretary:	Ha Yiu Fai
Qualified accountant:	Yuen Yiu Leung
Independent auditors:	KPMG
Legal advisor as to Hong Kong law:	Freshfields Bruckhaus Deringer
Legal advisor as to PRC law:	Beijing Commerce & Finance Law Offices
Listing venue of H-shares:	Hong Kong
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 the approval of the CBRC.*

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China Construction Bank