中国建设银行
China Construction Bank

中國建設銀行股份有限公司

China Construction Bank Corporation

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

(Stock Code: 939)

ANNOUNCEMENT OF ANNUAL RESULTS 2006

SUMMARY OF RESULTS

The board of directors of China Construction Bank Corporation (the "Bank") is pleased to announce the audited results, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board, of the Bank and its subsidiaries (collectively the "Group") for the year ended 31 December 2006. The annual results have been reviewed by the audit committee of the Bank's board of directors.

Financial Highlights

	2006	2005	Change
For the year	*(In millions of RMB)*		+/(-)%
Operating income	**151,593**	128,714	17.78
Profit before tax	**65,717**	55,364	18.70
Net profit	**46,319**	47,096	(1.65)
Adjusted net profit[1]	**46,319**	39,248	18.02
As at 31 December	*(In millions of RMB)*		+/(-)%
Total equity attributable to shareholders of the Bank	**330,109**	287,579	14.79
Issued and paid-up capital	**224,689**	224,689	—
Total assets	**5,448,511**	4,585,742	18.81
Per share	*(In RMB)*		+/(-)%
Net asset value per share	**1.47**	1.28	14.84
Earnings per share	**0.21**	0.24	(12.50)
Final cash dividend per share proposed after balance sheet date	**0.092**	0.015	513.33

Financial ratios		(%)	+/(-)
Profitability indicators			
Return on average assets	**0.92**	1.11	(0.19)
Adjusted return on average assets[2]	**0.92**	0.92	—
Return on average equity	**15.00**	21.59	(6.59)
Adjusted return on average equity[3]	**15.00**	17.99	(2.99)
Net interest spread	**2.69**	2.70	(0.01)
Net interest margin	**2.79**	2.78	0.01
Net fee and commission income to operating income	**8.95**	6.57	2.38
Cost-to-income ratio	**43.97**	45.13	(1.16)
Capital adequacy indicators			
Core capital adequacy ratio[4]	**9.92**	11.08	(1.16)
Capital adequacy ratio[4]	**12.11**	13.59	(1.48)
Total equity to total assets	**6.06**	6.27	(0.21)
Asset quality indicators			
Non-performing loan ratio	**3.29**	3.84	(0.55)
Allowances to non-performing loans	**82.24**	66.78	15.46
Allowances to total loans	**2.70**	2.57	0.13

1. Calculated by excluding the effect of the tax exemption in 2005 granted by the People's Republic of China ("PRC") government in relation to the restructuring of the Bank from the net profit.

2. Calculated by dividing adjusted net profit by the average of total assets as at the beginning and end of the year.

3. Calculated by dividing adjusted net profit attributable to shareholders by the weighted average of total equity attributable to shareholders for the year.

4. Calculated in accordance with the guideline issued by the China Banking Regulatory Commission (the "CBRC") and the consolidated financial statements prepared in accordance with the Accounting Standards for Business Enterprises, the Accounting Regulations for Financial Enterprises (2001) and other relevant regulations issued by the Ministry of Finance of the PRC (the "MOF") (collectively the "PRC GAAP").

Consolidated Income Statement

For the year ended 31 December 2006

(Expressed in millions of RMB unless otherwise stated)

	2006	2005	Change (%)
Interest income	**215,189**	173,601	23.96
Interest expense	**(74,821)**	(57,050)	31.15
Net interest income	**140,368**	116,551	20.43
Fee and commission income	**14,627**	9,261	57.94
Fee and commission expense	**(1,056)**	(806)	31.02
Net fee and commission income	**13,571**	8,455	60.51
Dividend income	**424**	546	(22.34)
Net gain arising from dealing securities	**619**	455	36.04
Net gain arising from investment securities	**1,012**	1,927	(47.48)
Other operating (loss)/income	**(4,401)**	780	(664.23)
Operating income	**151,593**	128,714	17.78
Operating expenses	**(66,662)**	(58,092)	14.75
	84,931	70,622	20.26
Provisions for impairment losses on			
— loans and advances to customers	**(18,997)**	(13,706)	38.60
— others	**(217)**	(1,552)	(86.02)
Impairment losses	**(19,214)**	(15,258)	25.93
Profit before tax	**65,717**	55,364	18.70
Income tax	**(19,398)**	(8,268)	134.62
Net profit	**46,319**	47,096	(1.65)
Attributable to:			
Shareholders of the Bank	**46,322**	47,103	(1.66)
Minority interests	**(3)**	(7)	(57.14)
Net profit	**46,319**	47,096	(1.65)
Cash dividends payable to shareholders of the Bank			
Interim cash dividend declared during the year	**—**	168	N/A
Special cash dividend declared during the year	**—**	3,100	N/A
Final cash dividend proposed after the balance sheet date	**20,671**	3,370	513.38
	20,671	6,638	211.40
Basic and diluted earnings per share (in RMB)	**0.21**	0.24	(12.50)

Consolidated Balance Sheet

As at 31 December 2006

(Expressed in millions of RMB unless otherwise stated)

	2006	2005	**Change (%)**
Assets			
Cash and balances with central banks	**539,673**	480,136	12.40
Amounts due from banks and non-bank financial institutions	**82,185**	190,108	(56.77)
Loans and advances to customers	**2,795,976**	2,395,313	16.73
Investments	**1,909,392**	1,413,871	35.05
Interest in associate	**103**	—	N/A
Property and equipment	**53,037**	49,961	6.16
Goodwill	**1,743**	—	N/A
Deferred tax assets	**2,701**	420	543.10
Other assets	**63,701**	55,933	13.89
Total assets	**5,448,511**	4,585,742	18.81
Liabilities			
Amounts due to central banks	**1,256**	21	5,880.95
Amounts due to banks and non-bank financial institutions	**243,968**	164,524	48.29
Deposits from customers	**4,721,256**	4,006,046	17.85
Certificates of deposit issued	**6,957**	5,429	28.15
Current tax liabilities	**17,897**	5,648	216.87
Deferred tax liabilities	**25**	—	N/A
Other liabilities and provisions	**87,031**	76,490	13.78
Subordinated bonds issued	**39,917**	39,907	0.03
Total liabilities	**5,118,307**	4,298,065	19.08
Equity			
Share capital	**224,689**	224,689	—
Reserves	**105,420**	62,890	67.63
Total equity attributable to shareholders of the Bank	**330,109**	287,579	14.79
Minority interests	**95**	98	(3.06)
Total equity	**330,204**	287,677	14.78
Total equity and liabilities	**5,448,511**	4,585,742	18.81

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

(Expressed in millions of RMB)

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

Consolidated Cash Flow Statement

For the year ended 31 December 2006

(Expressed in millions of RMB)

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

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

Notes:

1. The IFRS financial statements of the Group for the year ended 31 December 2006 will be available on the website of The Stock Exchange of Hong Kong Limited. These financial statements have been prepared in accordance with IFRS and its interpretations promulgated by the International Accounting Standards Board, and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

2. The results announcement is prepared on a basis consistent with the accounting policies adopted in the preparation of the financial statements of the Group for the year ended 31 December 2005.

3. Unless otherwise stated, the financial figures are expressed in millions of RMB.

4. For the purpose of this results announcement, the Mainland China excludes the Hong Kong Special Administrative Region of the PRC ("Hong Kong"), the Macau Special Administrative Region of the PRC ("Macau"), and Taiwan.

5. Net interest income

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

6. Net fee and commission income

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

7. Other operating (loss)/income

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

8. Operating expenses

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

9. Provisions for impairment losses

9.1 Impairment losses on loans and advances to customers

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

9.2 Other impairment losses

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

10. Income tax

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

11. Earnings per share

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

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

12. Loans and advances to customers

12.1 Analysed by nature

	2006	2005
Corporate loans	**2,112,751**	1,809,836
Personal loans	**599,340**	454,253
Discounted bills	**160,738**	194,309
Finance leases	**780**	—
Gross loans and advances to customers	**2,873,609**	2,458,398
Less: Allowances for impairment losses	**(77,633)**	(63,085)
Net loans and advances to customers	**2,795,976**	2,395,313

12.2 Movements of allowances for impairment losses

	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)**
Transfer out	**—**	**(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**

	2005			
	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	19,500	14,102	20,262	53,864
Write-offs	—	(78)	(3,706)	(3,784)
Transfer out	—	(55)	(38)	(93)
Recoveries	—	—	117	117
Net charge for the year	(71)	(735)	14,512	13,706
Unwinding of discount	—	—	(725)	(725)
As at 31 December	19,429	13,234	30,422	63,085

12.3 Loans and advances to customers and allowances

	2006				
		Impaired loans and advances			
	Loans and advances for which allowances are collectively assessed	**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**	

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

12.4 Analysed by economic sector

	2006	%	2005	%
Operations in Mainland China				
Corporate loans				
— manufacturing	**510,427**	**18.21**	433,104	17.87
— transportation, storage and postal services	**326,715**	**11.66**	278,532	11.49
— production and supply of electric power, gas and water	**318,493**	**11.36**	265,647	10.96
— property development	**302,290**	**10.79**	256,396	10.58
— construction	**96,580**	**3.45**	86,855	3.58
— water, environment and public utility management	**92,173**	**3.29**	75,959	3.13
— education	**77,458**	**2.76**	63,395	2.62
— wholesale and retail trade	**73,526**	**2.62**	63,179	2.61
— leasing and commercial services	**63,659**	**2.27**	47,444	1.96
— mining	**55,909**	**2.00**	49,332	2.04
— telecommunications, computer services and software	**38,962**	**1.39**	60,304	2.48
— others	**101,769**	**3.63**	95,644	3.94
Subtotal	**2,057,961**		1,775,791	
Personal loans	**585,085**	**20.88**	453,889	18.73
Discounted bills	**159,368**	**5.69**	194,122	8.01
Gross loans and advances to customers	**2,802,414**	**100.00**	2,423,802	100.00
Less: Allowances for impairment losses	**(77,339)**		(62,949)	
Net loans and advances to customers	**2,725,075**		2,360,853	
Operations outside Mainland China				
Corporate loans				
— property development	**15,292**	**21.48**	4,984	14.41
— manufacturing	**9,903**	**13.91**	8,550	24.71
— transportation, storage and postal services	**8,448**	**11.87**	7,314	21.14
— wholesale and retail trade	**5,005**	**7.03**	1,225	3.54
— telecommunications, computer services and software	**4,393**	**6.17**	4,379	12.66
— leasing and commercial services	**3,686**	**5.18**	3,328	9.62
— production and supply of electric power, gas and water	**3,081**	**4.33**	1,652	4.78
— residential and other services	**2,895**	**4.07**	2,079	6.01
— public management and social organisation	**1,412**	**1.98**	67	0.19
— others	**1,455**	**2.04**	467	1.35
Subtotal	**55,570**		34,045	
Personal loans	**14,255**	**20.02**	364	1.05
Discounted bills	**1,370**	**1.92**	187	0.54
Gross loans and advances to customers	**71,195**	**100.00**	34,596	100.00
Less: Allowances for impairment losses	**(294)**		(136)	
Net loans and advances to customers	**70,901**		34,460	
Total net loans and advances to customers	**2,795,976**		2,395,313	

12.5 Analysed by legal form of borrowers

	2006	2005
Corporate loans to		
— State-owned enterprises	**961,253**	844,404
— Joint-stock enterprises	**391,587**	374,427
— Private enterprises	**325,810**	214,509
— Foreign invested enterprises	**224,851**	183,486
— Collectively-controlled enterprises	**45,888**	42,963
— Jointly-owned enterprises	**18,308**	18,698
— Others	**145,054**	131,349
Subtotal	**2,112,751**	1,809,836
Personal loans	**599,340**	454,253
Discounted bills	**160,738**	194,309
Finance leases	**780**	—
Gross loans and advances to customers	**2,873,609**	2,458,398
Less: Allowances for impairment losses on		
Corporate loans to		
— State-owned enterprises	**(23,111)**	(20,555)
— Joint-stock enterprises	**(17,864)**	(13,866)
— Private enterprises	**(12,589)**	(8,765)
— Foreign invested enterprises	**(7,249)**	(6,096)
— Collectively-controlled enterprises	**(2,984)**	(2,778)
— Jointly-owned enterprises	**(918)**	(782)
— Others	**(2,949)**	(2,577)
Subtotal	**(67,664)**	(55,419)
Personal loans	**(9,782)**	(7,480)
Discounted bills	**(186)**	(186)
Finance leases	**(1)**	—
Total allowances for impairment losses	**(77,633)**	(63,085)
Net loans and advances to customers	**2,795,976**	2,395,313

12.6 Analysed by geographical sector

	2006		2005	
		%		%
Yangtze River Delta	**714,373**	**24.86**	608,384	24.75
Pearl River Delta	**399,229**	**13.89**	328,399	13.36
Bohai Rim	**549,755**	**19.13**	494,216	20.10
Central	**463,670**	**16.14**	405,956	16.51
Western	**469,428**	**16.34**	398,664	16.22
Northeastern	**177,771**	**6.19**	152,762	6.21
Head office	**28,188**	**0.98**	35,421	1.44
Outside Mainland China	**71,195**	**2.47**	34,596	1.41
Gross loans and advances to customers	**2,873,609**	**100.00**	2,458,398	100.00
Less: Allowances for impairment losses	**(77,633)**		(63,085)	
Net loans and advances to customers	**2,795,976**		2,395,313	

12.7 Analysed by type of collateral

	2006	2005
Loans secured by monetary assets	**265,074**	202,546
Loans secured by tangible assets, other than monetary assets	**1,212,165**	935,706
Guaranteed loans	**681,167**	633,180
Unsecured loans	**715,203**	686,966
Gross loans and advances to customers	**2,873,609**	2,458,398
Less: Allowances for impairment losses	**(77,633)**	(63,085)
Net loans and advances to customers	**2,795,976**	2,395,313

13. Investments

	2006	2005
Receivables	**546,357**	443,729
Held-to-maturity debt securities	**1,038,713**	643,978
Available-for-sale		
— debt securities	**309,089**	312,059
— equity investments	**9,617**	11,672
	318,706	323,731
Debt securities at fair value through profit or loss	**5,616**	2,433
Total	**1,909,392**	1,413,871

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

14. Deposits from customers

14.1 Analysed by nature

	2006	2005
Demand deposits		
— Corporate customers	**1,781,875**	1,475,119
— Personal customers	**834,809**	709,026
	2,616,684	2,184,145
Time deposits		
— Corporate customers	**715,743**	632,350
— Personal customers	**1,388,829**	1,189,551
	2,104,572	1,821,901
Total	**4,721,256**	4,006,046

14.2 Analysed by geographical segment

	2006	2005
Yangtze River Delta	**984,000**	828,647
Pearl River Delta	**735,391**	620,375
Bohai Rim	**924,942**	802,270
Central	**810,662**	687,258
Western	**776,246**	671,263
Northeastern	**369,657**	322,758
Head office	**72,828**	58,897
Outside Mainland China	**47,530**	14,578
Total	**4,721,256**	4,006,046

15. Segment reporting

15.1 Business segments

The Group comprises the following main business segments:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations, government agencies and financial institutions. The products and services include corporate loans, trade financing, deposit taking activities, agency services, consulting and advisory services, cash management services, remittance and settlement services, custody services and guarantee services.

Personal banking

This segment represents the provision of a range of financial products and services to individual customers. The products and services comprise personal loans, deposit taking activities, card business, personal wealth management services, remittance services and securities agency services.

Treasury business

This segment covers the Group's treasury operations. The treasury enters into inter-bank money market transactions and repurchase transactions, and invests in debt instruments. It also trades in debt instruments, derivatives and foreign currency for its own account. The treasury carries out customer driven derivatives, foreign currency and precious metal trading. Its function also includes the management of the Group's overall liquidity position, including the issuance of subordinated bonds.

Others and unallocated

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

	2006					
	Corporate banking	Personal banking	Treasury business	Others and unallocated	Elimination	Total
External net interest income/(expense)	100,286	(12,453)	51,555	980	—	140,368
Internal net interest (expense)/income	(22,253)	47,937	(24,477)	(1,207)	—	—
Net interest income/(expense)	78,033	35,484	27,078	(227)	—	140,368
Net fee and commission income	5,635	7,182	580	174	—	13,571
Dividend income	—	—	—	424	—	424
Net gain arising from dealing securities	—	—	264	355	—	619
Net gain arising from investment securities	—	—	234	778	—	1,012
Other operating income/(loss)	874	557	(6,193)	361	—	(4,401)
Operating income	84,542	43,223	21,963	1,865	—	151,593
Operating expenses						
— depreciation and amortisation	(3,000)	(3,465)	(463)	(66)	—	(6,994)
— others	(28,387)	(26,619)	(3,152)	(1,510)	—	(59,668)
	(31,387)	(30,084)	(3,615)	(1,576)	—	(66,662)
	53,155	13,139	18,348	289	—	84,931
Provisions for impairment losses	(16,513)	(2,484)	—	(217)	—	(19,214)
Profit before tax	36,642	10,655	18,348	72	—	65,717
Capital expenditure	2,399	3,903	359	3,680	—	10,341
Segment assets	2,499,153	621,550	2,199,334	158,036	(29,562)	5,448,511
Segment liabilities	2,450,821	2,503,048	46,481	147,519	(29,562)	5,118,307

	2005					
	Corporate banking	Personal banking	Treasury business	Others and unallocated	Elimination	Total
External net interest income/(expense)	86,375	(7,342)	36,504	1,014	—	116,551
Internal net interest (expense)/income	(21,869)	36,875	(13,799)	(1,207)	—	—
Net interest income/(expense)	64,506	29,533	22,705	(193)	—	116,551
Net fee and commission income/ (expense)	3,176	4,133	1,154	(8)	—	8,455
Dividend income	—	—	—	546	—	546
Net gain arising from dealing securities	—	—	451	4	—	455
Net gain arising from investment securities	—	—	913	1,014	—	1,927
Other operating income/(loss)	751	147	(1,259)	1,141	—	780
Operating income	68,433	33,813	23,964	2,504	—	128,714
Operating expenses						
— depreciation and amortisation	(1,723)	(2,383)	(674)	(1,906)	—	(6,686)
— others	(19,245)	(18,109)	(4,009)	(10,043)	—	(51,406)
	(20,968)	(20,492)	(4,683)	(11,949)	—	(58,092)
	47,465	13,321	19,281	(9,445)	—	70,622
Provisions for impairment losses	(11,953)	(2,258)	(9)	(1,038)	—	(15,258)
Profit/(loss) before tax	35,512	11,063	19,272	(10,483)	—	55,364
Capital expenditure	1,503	3,544	206	3,511	—	8,764
Segment assets	2,240,910	493,493	1,664,996	215,578	(29,235)	4,585,742
Segment liabilities	2,041,994	2,105,639	73,935	105,732	(29,235)	4,298,065

15.2 *Geographical segments*

The Group operates principally in Mainland China with branches located in 31 provinces, autonomous regions and municipalities directly under the central government, and two subsidiaries located in the Bohai Rim. The Group also has bank branch operations in Hong Kong, Singapore, Frankfurt, Johannesburg, Tokyo and Seoul, and subsidiaries operating in Hong Kong.

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

Geographical segments, as defined for management reporting purposes, are as follows:

— "Yangtze River Delta" refers to the following areas serviced by the tier-1 branches of the Group: Shanghai Municipality, Jiangsu Province, Zhejiang Province, City of Ningbo and City of Suzhou;

— "Pearl River Delta" refers to the following areas serviced by the tier-1 branches of the Group: Guangdong Province, City of Shenzhen, Fujian Province and City of Xiamen;

— "Bohai Rim" refers to the following areas serviced by the subsidiaries and tier-1 branches of the Group: Beijing Municipality, Shandong Province, Tianjin Municipality, Hebei Province and City of Qingdao;

— the "Central" region refers to the following areas serviced by the tier-1 branches of the Group: Shanxi Province, Guangxi Autonomous Region, Hubei Province, Henan Province, Hunan Province, Jiangxi Province, Hainan Province, Anhui Province and the Three Gorges Area;

— the "Western" region refers to the following areas serviced by the tier-1 branches of the Group: Sichuan Province, Chongqing Municipality, Guizhou Province, Yunnan Province, Tibet Autonomous Region, Inner Mongolia Autonomous Region, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region and Xinjiang Autonomous Region; and

— the "Northeastern" region refers to the following areas serviced by the tier-1 branches of the Group: Liaoning Province, Jilin Province, Heilongjiang Province and City of Dalian.

	2006									
	Yangtze River Delta	**Pearl River Delta**	**Bohai Rim**	**Central**	**Western**	**Northeastern**	**Head office**	**Outside Mainland China**	**Elimination**	**Total**
External net interest income	24,651	10,619	14,997	14,546	14,996	4,196	54,532	1,831	—	140,368
Internal net interest income/(expense)	6,282	7,274	9,218	6,585	6,233	3,723	(38,058)	(1,257)	—	—
Net interest income	30,933	17,893	24,215	21,131	21,229	7,919	16,474	574	—	140,368
Net fee and commission income	2,852	2,398	2,420	2,367	1,845	914	691	84	—	13,571
Dividend income	1	10	12	316	58	1	24	2	—	424
Net gain arising from dealing securities	37	35	11	4	10	8	159	355	—	619
Net gain/(loss) arising from investment securities	99	—	345	169	176	75	208	(60)	—	1,012
Other operating income/(loss)	352	176	237	252	566	95	(6,233)	154	—	(4,401)
Operating income	34,274	20,512	27,240	24,239	23,884	9,012	11,323	1,109	—	151,593
Operating expenses										
— depreciation and amortisation	(1,348)	(937)	(1,033)	(1,243)	(1,063)	(521)	(822)	(27)	—	(6,994)
— others	(11,742)	(8,194)	(9,878)	(10,796)	(10,351)	(4,740)	(3,538)	(429)	—	(59,668)
	(13,090)	(9,131)	(10,911)	(12,039)	(11,414)	(5,261)	(4,360)	(456)	—	(66,662)
	21,184	11,381	16,329	12,200	12,470	3,751	6,963	653	—	84,931
Provisions for impairment losses	(2,427)	(1,914)	(7,183)	(3,357)	(2,271)	(1,763)	(189)	(110)	—	(19,214)
Profit before tax	18,757	9,467	9,146	8,843	10,199	1,988	6,774	543	—	65,717
Capital expenditure	2,247	1,565	1,667	1,631	1,405	631	1,144	51	—	10,341
Segment assets	1,041,317	797,048	986,165	829,975	791,787	376,834	2,342,439	115,162	(1,832,216)	5,448,511
Segment liabilities	1,038,581	796,748	990,054	831,066	791,764	378,238	2,010,132	113,940	(1,832,216)	5,118,307
Off-balance sheet credit commitments	187,232	95,175	110,860	96,253	104,593	27,563	15,026	24,573	—	661,275

	2005									
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central	Western	Northeastern	Head office	Outside Mainland China	Elimination	Total
External net interest income	21,877	8,203	13,591	11,994	12,608	2,982	44,056	1,240	—	116,551
Internal net interest income/ (expense)	4,766	6,272	7,584	5,599	5,715	3,376	(32,684)	(628)	—	—
Net interest income	26,643	14,475	21,175	17,593	18,323	6,358	11,372	612	—	116,551
Net fee and commission income	1,833	1,606	1,426	1,419	1,120	548	430	73	—	8,455
Dividend income	15	17	33	237	57	109	78	—	—	546
Net gain arising from dealing securities	—	—	—	—	—	—	451	4	—	455
Net gain arising from investment securities	41	109	176	325	43	80	1,070	83	—	1,927
Other operating income/ (loss)	243	287	209	285	485	191	(1,119)	199	—	780
Operating income	28,775	16,494	23,019	19,859	20,028	7,286	12,282	971	—	128,714
Operating expenses										
— depreciation and amortisation	(1,265)	(957)	(1,047)	(1,231)	(1,075)	(523)	(570)	(18)	—	(6,686)
— others	(10,069)	(7,270)	(9,154)	(9,871)	(9,071)	(4,279)	(1,382)	(310)	—	(51,406)
	(11,334)	(8,227)	(10,201)	(11,102)	(10,146)	(4,802)	(1,952)	(328)	—	(58,092)
	17,441	8,267	12,818	8,757	9,882	2,484	10,330	643	—	70,622
Provisions for impairment losses	(1,870)	(2,544)	(3,398)	(2,778)	(3,351)	(1,044)	(265)	(8)	—	(15,258)
Profit before tax	15,571	5,723	9,420	5,979	6,531	1,440	10,065	635	—	55,364
Capital expenditure	1,523	925	1,242	1,106	1,093	555	2,203	117	—	8,764
Segment assets	863,654	643,197	857,832	703,969	684,549	328,658	1,886,307	68,561	(1,450,985)	4,585,742
Segment liabilities	860,461	642,324	855,680	703,607	684,500	328,913	1,606,345	67,220	(1,450,985)	4,298,065
Off-balance sheet credit commitments	148,964	67,183	92,659	93,666	77,747	32,880	14,279	14,768	—	542,146

16. Off-Balance-Sheet Items

16.1 Credit commitments

The contractual amounts of commitments and contingent liabilities are set out in the following table by categories. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represents the maximum potential loss that would be recognised at the balance sheet date if counterparties failed completely to perform as contracted.

	2006	2005
Contractual amount		
Loan commitments		
— with an original maturity under one year	**28,370**	16,961
— with an original maturity of one year or over	**209,167**	144,871
	237,537	161,832
Guarantees and letters of credit	**250,944**	183,638
Acceptances	**112,678**	138,826
Credit card commitments	**53,810**	37,421
Others	**6,306**	20,429
	661,275	542,146

These commitments and contingent liabilities have off-balance sheet credit risk. Before the commitments are fulfilled or expire, management assess and make allowances for any probable losses accordingly. As the facilities may expire without being drawn upon, the total of the contractual amounts is not representative of expected future cash outflows.

	2006	2005
Credit risk weighted amount of contingent liabilities and commitments	**303,508**	242,057

The credit risk weighted amount refers to the amount as computed in accordance with the rules set out by the CBRC and depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% of contingent liabilities and commitments.

The credit risk weighted amounts stated above have taken into account the effects of bilateral netting arrangements.

16.2 Capital commitments

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

	2006	2005
Purchase of property and equipment		
— contracted for	**1,978**	296
— not contracted for	**982**	967
Total	**2,960**	1,263

16.3 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:

	2006	2005
Within one year	**1,710**	1,387
After one year but within five years	**3,511**	3,020
After five years	**1,463**	1,087
Total	**6,684**	5,494

16.4 Outstanding litigation and disputes

As at 31 December 2006, the Group was the defendant in certain pending litigation and disputes with gross claims of RMB2,566 million (2005: RMB2,607 million). Provisions have been made for the estimated losses of such litigation based upon the opinions of the Group's internal and external legal counsel. The Group considers that the provisions made are reasonable and adequate.

16.5 Underwriting obligations

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

	2006	2005
Underwriting obligations	**1,540**	1,980

16.6 Redemption obligations

As an underwriting agent of PRC government bonds, the Group has the responsibility to buy back those bonds sold by it should the holders decide to early redeem the bonds held. The redemption price for the bonds at any time before their maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interest payables to the bond holders are calculated in accordance with relevant rules of the MOF and the People's Bank of China (the "PBOC"). The redemption price may be different from the fair value of similar instruments traded at the redemption date.

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

	2006	2005
Redemption obligations	**92,243**	102,079

The Group expects the amount of redemption before the maturity date of these government bonds through the Group will not be material.

16.7 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, the Group has not made other provisions in respect of the above commitments and contingent liabilities at the balance sheet date.

Unaudited Supplementary Financial Information

1. Gross amount of overdue loans and advances to customers

	2006	2005
Gross loans and advances to customers which have been overdue with respect to either principal or interest for periods of:		
— between 3 and 6 months	**9,798**	11,475
— between 6 and 12 months	**14,295**	15,567
— over 12 months	**53,536**	47,450
Total	**77,629**	74,492
As a percentage of total gross loans and advances to customers:		
— between 3 and 6 months	**0.34%**	0.47%
— between 6 and 12 months	**0.50%**	0.63%
— over 12 months	**1.86%**	1.93%
Total	**2.70%**	3.03%

Notes:

(1) The above analysis includes loans and advances overdue for more than 90 days as required by the Hong Kong Monetary Authority.

Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

For loans and advances repayable by regular instalments, if part of the instalments is overdue, the whole amount of these loans would be classified as overdue.

Loans and advances repayable on demand are classified as overdue when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instructions. If the loans and advances repayable on demand are outside the approved limit that was advised to the borrower, they are also considered as overdue.

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

2. Rescheduled loans and advances to customers

	2006		2005	
		% of total loans and advances		*% of total loans and advances*
Rescheduled loans and advances to customers	**3,384**	**0.12%**	5,012	0.20%
Less:				
— rescheduled loans and advances to customers but overdue more than 90 days	**(1,929)**	**(0.07%)**	(1,319)	(0.05%)
Rescheduled loans and advances to customers overdue less than 90 days	**1,455**	**0.05%**	3,693	0.15%

3. Cross-border claims

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

Cross-border claims include loans and advances, balances 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.

	2006			
	Banks and non-bank financial institutions	**Public sector entities**	**Others**	**Total**
Asia Pacific excluding Mainland China	**26,317**	**4,914**	**23,330**	**54,561**
— of which attributed to Hong Kong	**8,550**	**1,747**	**7,083**	**17,380**
Europe	**61,064**	**4,030**	**5,175**	**70,269**
North and South America	**127,769**	**121,122**	**10,951**	**259,842**
	215,150	**130,066**	**39,456**	**384,672**

	2005			
	Banks and non-bank financial institutions	Public sector entities	Others	Total
Asia Pacific excluding Mainland China	123,597	1,479	17,183	142,259
— of which attributed to Hong Kong	83,578	903	6,165	90,646
Europe	74,108	3,805	5,897	83,810
North and South America	85,507	81,085	6,818	173,410
	283,212	86,369	29,898	399,479

4. Currency concentrations

	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**

	2005			
	US Dollars	HK Dollars	Others	Total
Spot assets	433,717	48,014	36,011	517,742
Spot liabilities	(151,271)	(30,922)	(23,360)	(205,553)
Forward purchases	100,048	6,513	7,368	113,929
Forward sales	(135,922)	(22,627)	(14,389)	(172,938)
Net option position	(181,580)	—	—	(181,580)
Net long position	64,992	978	5,630	71,600
Net structural position	—	203	12	215

5. Capital adequacy ratio

The capital adequacy ratio is prepared in accordance with the guideline *Regulation Governing Capital Adequacy of Commercial Banks* [Order (2004) No.2] effective on 1 March 2004, which may have significant differences with the relevant requirements in Hong Kong or other countries.

The capital adequacy ratios and the related components of the Group at balance sheet date were as follows:

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

Notes:

(i) Core capital adequacy ratio is calculated by dividing the net amount of core capital after deductions of 100% of goodwill and 50% of unconsolidated equity investments by risk weighted assets.

(ii) Capital adequacy ratio is calculated by dividing the total capital base after deductions by risk weighted assets.

(iii) Other reserves have been deducted by the dividend declared by the Bank after balance sheet date.

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

6. Liquidity ratios

	2006	2005
RMB current assets to RMB current liabilities	**39.05%**	47.50%
Foreign currency current assets to foreign currency current liabilities	**200.36%**	144.18%

The above liquidity ratios are calculated in accordance with the formula promulgated by the CBRC. Prior to 2006, the Bank disclosed its liquidity ratios calculated in accordance with the formula promulgated by the PBOC. Comparative figures have been revised to conform with current year's presentation.

CHAIRMAN'S STATEMENT

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

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

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

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

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

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

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

Guo Shuqing
Chairman

PRESIDENT'S REPORT

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

Outstanding Performance in 2006

- **Steady improvements in quality and productivity**

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

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

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

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

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

- **Effective structural reform**

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

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

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

During the year, significant developments were evident in our credit cards, electronic banking, international, treasury and investment banking businesses. The number of credit cards issued amounted to 6.34 million and the total spending amount was RMB40,467 million. The number of credit cards issued and spending amount both recorded a year-on-year growth over 100%. In terms of our electronic banking, we now have 43.29 million customers and a total transaction amount of RMB30.7 trillion, representing increases of 38% and 227% respectively compared to the previous year. Our international settlement volume grew by 35.05% to USD190.3 billion, while our customer-driven foreign exchange trading as well as purchases and sales of foreign exchange reached the volume of USD123.3 billion, 27.51% higher than in 2005. We secured the largest domestic market share in commercial paper underwriting, recording a total of RMB65,775 million, or an increase of 56.24% compared with 2005.

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

- **Further reforms**

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

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

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

- **Product innovation**

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

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

- **Strategic cooperation**

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

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

Outlook for 2007

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

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

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

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

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

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

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

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

Zhang Jianguo
Vice Chairman, Executive Director and President

MANAGEMENT DISCUSSION AND ANALYSIS

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

Income Statement Analysis

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

Net Interest Income

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

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

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

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

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

Interest Income

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

Interest Income from Loans and Advances to Customers

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

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

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

Interest Income from Investments in Debt Securities

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

Interest Income from Balances with Central Banks

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

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

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

Interest Expense

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

Interest Expense on Deposits from Customers

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

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

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

Net Fee and Commission Income

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

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

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

Other Operating Loss/Income

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

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

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

1. The foreign exchange exposures are RMB equivalent foreign currency exposures. Positive figures represent long positions of foreign currency and negative figures represent short positions of foreign currency.

2. The net foreign exchange exposures represent the net long position disclosed in "Currency Concentrations" of the unaudited supplementary financial information.

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

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

— A swap of USD8,969 million

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

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

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

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

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

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

Operating Expenses

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

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

Allowances for Impairment Losses

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

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

Income Tax

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

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

Balance Sheet Analysis

Assets

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

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

Loans and Advances to Customers

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

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

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

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

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

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

Personal loans, one of the Group's strategic development priorities, grew by RMB131,196 million, or 28.90% as compared with the end of 2005. With our increasing brand advantage and competitiveness, residential mortgage loans rose by RMB79,820 million, or 22.92% as compared with the end of 2005. The gains in personal credit lines offset the fall in personal automobile loans, and generated an increase of

RMB12,470 million in personal consumption loans. Other loans climbed by RMB38,906 million, or 85.47% over 2005, largely due to the rapid growth of individual commercial property mortgage loans and personal business loans.

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

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

Investments

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

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

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

Liabilities

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

Deposits from Customers

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

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

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

Shareholders' Equity

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

Capital Adequacy Ratio

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

Loan Quality Analysis

Distribution of Loans by Grading

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

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

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

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

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

Distribution of Loans and NPLs by Product Type

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

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

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

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

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

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

Distribution of Corporate Loans and NPLs by Industry

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

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

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

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

CREDIT CARD COOPERATION WITH BAC

The Board has approved the memorandum of understanding between the Bank and BAC for credit card cooperation and authorised Mr. Guo Shuqing, chairman of the Board, to amend it as appropriate based on the results of negotiation and requirements of regulatory authorities and sign the said memorandum.

It is proposed that the credit card cooperation with BAC be carried out in two stages:

- **Credit card business unit:** The Bank will establish an independent and centralised credit card business unit, and set up an advisory committee with representatives from both parties to plan and oversee the establishment and operation of the business unit. BAC will dispatch personnel to provide consulting services to the credit card business unit; and
- **Joint venture:** The credit card business unit will be converted into a Sino-foreign credit card joint venture incorporated in China upon the satisfaction of certain conditions, including obtaining all relevant governmental approvals. The Bank will contribute to the joint venture the credit card business unit at a value to be determined by an independent third party, and BAC will contribute a cash amount based on the appraised value of the credit card business unit. Both parties will appoint representatives to the board of directors and the senior management of the joint venture. The Bank will hold an interest of 63% in the joint venture and BAC will hold an interest of 37%. Both parties' interest will be subject to a lockup period of no less than three years.

The above proposed cooperation is subject to shareholders' approval at the forthcoming annual general meeting. Relevant details will be contained in the circular which is expected to be dispatched to shareholders on or about 27 April 2007.

PURCHASE, SALE AND REDEMPTION OF SHARES

During the year ended 31 December 2006, there was no purchase, sale or redemption by the Bank, or any of its subsidiaries, of the Bank's listed shares.

CORPORATE GOVERNANCE

The Bank is committed to maintaining high-level corporate governance. We have complied with the code provisions of the Code on Corporate Governance Practices ("Model Code") as set out in Appendix 14 of the Listing Rules throughout the year ended 31 December 2006 and have substantially complied with the recommended best practices set out in the Model Code.

SECURITIES TRANSACTIONS BY DIRECTORS

In relation to securities transactions by directors and supervisors, the Bank has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules. Having enquired with our directors and supervisors, the directors and supervisors confirm that they have, during the year ended 31 December 2006, complied with the provisions of the said code of practice in relation to securities transactions.

DIVIDENDS

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

CLOSURE OF REGISTER OF MEMBERS

The Bank's register of members will be closed from Monday, 14 May 2007 to Tuesday, 12 June 2007, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the cash dividend proposed for the year ended 31 December 2006 and to attend and vote at the 2006 annual general meeting, 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 Friday, 11 May 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.

ANNUAL GENERAL MEETING

The 2006 annual general meeting will be held on Wednesday, 13 June 2007. For further details of the annual general meeting, please refer to the circular which is expected to be dispatched to shareholders on or about 27 April 2007.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

In addition to preparing our financial statements in accordance with IFRS, we have also prepared our PRC statutory financial statements in accordance with PRC GAAP. Our PRC GAAP financial statements will be published on our website www.ccb.com in due course.

The Annual Report 2006 of the Bank containing all the information required by the Listing Rules will be published on the website of The Stock Exchange of Hong Kong Limited and on our website in due course.

REVIEW OF ANNUAL RESULTS

The Bank's external auditors, KPMG has audited the financial statements of the Group prepared in accordance with IFRS, and has issued unqualified reports. The audit committee has reviewed the Annual Report 2006 of the Bank. The audit committee has considered matters such as accounting policies and estimates adopted in the preparation of the financial statements, the presentation of the financial statements and internal controls.

By Order of the Board
CHINA CONSTRUCTION BANK CORPORATION
Zhang Jianguo
Vice Chairman, Executive Director and President

13 April 2007

As at the date of this announcement, the executive directors of the Bank are Mr. Guo Shuqing, Mr. Zhang Jianguo, Mr. Zhao Lin and Mr. Luo Zhefu; the non-executive directors of the Bank are Mr. Zhu Zhenmin, Mr. Jing Xuecheng, Ms. Wang Shumin, Mr. Wang Yonggang, Mr. Liu Xianghui, Mr. Zhang Xiangdong and Mr. Gregory L. Curl; and the independent non-executive directors are Mr. Song Fengming, Mr.Yashiro Masamoto, Mr. Tse Hau Yin, Aloysius, Ms. Elaine La Roche and Lord Peter Levene.

Please also refer to the published version of this announcement in ***South China Morning Post.***