1 SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

(a) Statement of compliance

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

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

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

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

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

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

(b) Basis of preparation of the financial statements

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

(c) Subsidiaries and minority interests

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

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

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

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

(c) Subsidiaries and minority interests (Continued)

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

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

(d) Associates

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

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

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

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

(e) Goodwill

(i) Cost

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

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

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

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

(ii) Impairment

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Goodwill (Continued)

(ii) Impairment (Continued)

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

An impairment loss in respect of goodwill is not reversed.

(iii) Disposal

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

(f) Financial instruments

(i) Initial recognition

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

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

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

(ii) Categorisation

Fair value through profit or loss

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

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

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

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

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

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

(f) Financial instruments (Continued)

(ii) Categorisation (Continued)

Loans and receivables

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

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

Held-to-maturity financial assets

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

Available-for-sale financial assets

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

(iii) Subsequent measurement

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial instruments (Continued)

(iv) Fair value measurement principles

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

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

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

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

(v) Derecognition

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

(vi) Impairment

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

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

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

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

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

(f) Financial instruments (Continued)

(vi) Impairment (Continued)

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

(vi-1) *Individually assessed financial assets*

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

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

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

— significant financial difficulty of the borrower;

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

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

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

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

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

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

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

(vi-2) *Collectively assessed financial assets*

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

— homogeneous groups of loans not considered individually significant

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

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial instruments (Continued)

(vi) Impairment (Continued)

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

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

Homogeneous groups of loans not considered individually significant

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

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

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

The collective impairment loss is assessed after taking into account:

— historical loss experience in portfolios of similar risk characteristics;

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

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

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

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial instruments (Continued)

(vi) Impairment (Continued)

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

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

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

— Available-for-sale financial assets

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

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

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

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

(vii) Offsetting

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

(viii) Derivative financial instruments

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

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

(ix) Embedded derivatives

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial instruments (Continued)

(x) Hedge accounting

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

Fair value hedges

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

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

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

Hedge effectiveness testing

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

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

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

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

(g) Repurchase and resale agreements

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

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

(g) Repurchase and resale agreements (Continued)

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

(h) Property and equipment

(i) Cost

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

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

(iv) Impairment

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Property and equipment (Continued)

(v) Disposal and retirement

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

(i) Finance and operating lease

(i) Classification

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

(ii) Finance leases

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

(iii) Operating lease

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

(j) Land use rights

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

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

(k) Repossessed assets

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

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

(l) Cash equivalents

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Provisions and contingent liabilities

(i) Provisions

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

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

(ii) Financial guarantees issued

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

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

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

(iii) Contingent liabilities acquired in business combinations

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

(n) Employee benefits

(i) Employment benefits

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

(ii) Post employment benefits

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Employee benefits (Continued)

(ii) Post employment benefits (Continued)

Defined contribution retirement schemes

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

Supplementary retirement benefits

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

(o) Income tax

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

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

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

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

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

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

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

  — the same taxable entity; or

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

(p) Fiduciary activities

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

(p) Fiduciary activities (Continued)

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

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

(q) Income recognition

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

(i) Interest income

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

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

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

(ii) Fee and commission income

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

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

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

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

(iv) Dividend income

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Foreign currency translation

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

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

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

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

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

(s) Dividend payable

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

(t) Related parties

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

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

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

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

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

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

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

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

(u) Segment reporting

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

2 NET INTEREST INCOME

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

Notes:

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

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

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

3 NET FEE AND COMMISSION INCOME

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

4 DIVIDEND INCOME

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

5 NET GAIN ARISING FROM DEALING SECURITIES

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

6 NET GAIN ARISING FROM INVESTMENT SECURITIES

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

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

7 OTHER OPERATING (LOSS)/INCOME

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

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

8 OPERATING EXPENSES

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

Notes:

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

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

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

9 PROVISIONS FOR IMPAIRMENT LOSSES

(a) Impairment losses on loans and advances to customers

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

(b) Other impairment losses

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

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

10 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

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

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

10 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (CONTINUED)

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

Notes:

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

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

10 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (CONTINUED)

Notes (Continued):

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

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

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

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

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

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

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

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

11 INDIVIDUALS WITH HIGHEST EMOLUMENTS

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

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

11 INDIVIDUALS WITH HIGHEST EMOLUMENTS (CONTINUED)

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

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

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

12 LOANS TO DIRECTORS, SUPERVISORS AND OFFICERS

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

13 INCOME TAX

(a) Recognised in the consolidated income statement

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

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

13 INCOME TAX (CONTINUED)

(b) Reconciliation of profit before tax to income tax

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

Notes:

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

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

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

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

14 EARNINGS PER SHARE

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

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

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

15 CASH AND BALANCES WITH CENTRAL BANKS

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

Notes:

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

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

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

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

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16 AMOUNTS DUE FROM BANKS AND NON-BANK FINANCIAL INSTITUTIONS

(a) Analysed by nature

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

(b) Analysed by geographical location

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

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

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

(c) Analysed by legal form of counterparty

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

(d) Movements of allowances for impairment losses

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

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17 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysed by nature

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

(b) Movements of allowances for impairment losses

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

17 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

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

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

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17 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

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

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

17 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(c) Loans and advances to customers and allowances

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

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17 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

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

17 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

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

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17 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

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

Notes:

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

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

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

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

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

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

17 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(d) Analysed by legal form of borrowers

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

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18 INVESTMENTS

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

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

(a) Receivables

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

18 INVESTMENTS (CONTINUED)

(a) Receivables (Continued)

Notes:

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

(ii) Due from the PBOC includes:

— a non-transferable bill with a nominal value of RMB63,354 million issued specifically to CCB as part of the Restructuring. The majority of the proceeds paid by China Cinda Asset Management Corporation ("Cinda") on the disposal of impaired loans and advances were used to subscribe to the PBOC bill. The bill matures in June 2009 and bears interest at a fixed rate of 1.89% per annum. The PBOC has the right to early settle the bill;

— a non-transferable bill with a nominal value of RMB21,000 million issued for settlement of CCB's receivables arising from its appointment by the State Council of the PRC and the PBOC to act as the receiver in respect of the liquidation of a trust and investment company (Note 27(b)). The bill matures in June 2007 and bears interest at a fixed rate of 1.89% per annum. The PBOC has an early redemption right on this bill subject to certain conditions; and

— a non-transferable bill with a nominal value of RMB593 million issued specially to the Bank in June 2006 for partial settlement of loans that had been transferred to asset management companies. The bill matures in June 2011 and bears interest at a fixed rate of 1.89% per annum.

(iii) Cinda issued a bond specifically to CCB in 1999 for the acquisition of CCB's impaired loans and advances at their original book value. The bond has a nominal value of RMB247,000 million and matures in September 2009. It bears interest at a fixed rate of 2.25% per annum. According to a notice issued by the MOF, starting from 1 January 2005, the MOF will provide financial support if Cinda is unable to repay the interest in full. The MOF will also provide support for the repayment of bond principal, if necessary.

(iv) As part of the Restructuring, the PBOC approved the Bank's use of the special government bond and the bill with a nominal value of RMB63,354 million issued by the PBOC as eligible assets equivalent to the surplus deposit reserve at PBOC for clearing purposes. The PBOC also approved a bill with a nominal value of RMB593 million issued by the PBOC in June 2006 as an eligible asset equivalent to the surplus deposit reserve for clearing purposes.

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

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18 INVESTMENTS (CONTINUED)

(b) Held-to-maturity debt securities

	Group		Bank	
	2006	2005	**2006**	2005
Issued by:				
Governments				
— in Mainland China	**247,281**	205,649	**247,271**	205,639
— outside Mainland China	**25,636**	161	**25,636**	161
The PBOC	**391,853**	218,354	**391,794**	218,281
Policy banks				
— in Mainland China	**199,164**	144,507	**198,879**	144,467
— outside Mainland China	**7,244**	1,630	**7,244**	1,630
Banks and non-bank financial institutions				
— in Mainland China	**17,110**	17,115	**17,110**	17,115
— outside Mainland China	**94,930**	37,934	**94,900**	37,902
Public sector entities outside Mainland China	**52,230**	17,938	**52,230**	17,938
Others				
— in Mainland China (note)	**72**	176	**72**	176
— outside Mainland China	**3,193**	514	**3,139**	362
Total	**1,038,713**	643,978	**1,038,275**	643,671
Listed in Hong Kong	**2,989**	1,849	**2,989**	1,849
Listed outside Hong Kong	**84,044**	27,787	**84,014**	27,716
Unlisted	**951,680**	614,342	**951,272**	614,106
Total	**1,038,713**	643,978	**1,038,275**	643,671
Market value of listed securities	**86,344**	28,920	**86,314**	28,848

Note: Others in Mainland China as at 31 December 2006 represent debt securities issued by state-owned enterprises of RMB72 million (2005: RMB176 million).

18 INVESTMENTS (CONTINUED)

(c) Available-for-sale debt securities

	Group		Bank	
	2006	2005	**2006**	2005
At fair value and issued by:				
Governments				
— in Mainland China	**6,532**	13,404	**6,532**	13,404
— outside Mainland China	**24,344**	44,061	**24,077**	43,905
The PBOC	**141,642**	110,114	**141,642**	110,114
Central banks outside Mainland China	**—**	310	**—**	310
Policy banks				
— in Mainland China	**14,240**	10,429	**14,240**	10,429
— outside Mainland China	**1,623**	5,512	**1,623**	5,399
Banks and non-bank financial institutions				
— in Mainland China	**864**	—	**864**	—
— outside Mainland China	**73,874**	87,950	**71,856**	87,950
Public sector entities outside Mainland China	**25,174**	23,086	**25,174**	22,109
Others				
— in Mainland China (note)	**14,555**	13,245	**14,555**	13,245
— outside Mainland China	**6,241**	3,948	**6,188**	3,747
Total	**309,089**	312,059	**306,751**	310,612
Listed in Hong Kong	**1,872**	1,863	**1,732**	1,614
Listed outside Hong Kong	**52,893**	74,562	**52,734**	73,867
Unlisted	**254,324**	235,634	**252,285**	235,131
Total	**309,089**	312,059	**306,751**	310,612

Note: Others in Mainland China as at 31 December 2006 represent debt securities issued by state-owned enterprises and joint-stock enterprises of RMB8,449 million (2005: RMB3,424 million) and RMB6,106 million (2005: RMB9,821 million) respectively.

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18 INVESTMENTS (CONTINUED)

(d) Available-for-sale equity investments

	Group		Bank	
	2006	2005	**2006**	2005
At fair value:				
Debt equity swap investments (note)	**7,550**	10,886	**7,550**	10,886
Other equity investments	**2,067**	786	**1,600**	783
Total	**9,617**	11,672	**9,150**	11,669
Listed in Hong Kong	**1,825**	563	**1,426**	560
Listed outside Hong Kong	**—**	17	**—**	17
Unlisted	**7,792**	11,092	**7,724**	11,092
Total	**9,617**	11,672	**9,150**	11,669

Note: Pursuant to the arrangement by the PRC government in 1999, the Group acquired unlisted legal person shares ("debt equity swap investments") in certain corporate borrowers in lieu of repayments of loans granted to them. Pursuant to a notice (the "Notice") jointly issued by the State Economic & Trade Commission of the PRC and the PBOC on 5 July 1999, commercial banks are prohibited from being involved in the management of the operations of these corporate borrowers even though the banks hold equity interests through the above debt equity swap arrangement.

The Group is required to comply with the Notice and has not controlled the financial and operating policy decisions of these corporate borrowers nor exerted significant influence over these policies. In substance, the Group does not have any control or significant influence over these corporate borrowers. The Group has been advised by its external legal counsel that such direct ownership in these investments does not violate any of the prevailing laws and regulations in the PRC.

18 INVESTMENTS (CONTINUED)

(e) Debt securities at fair value through profit or loss

	Group		Bank	
	2006	2005	**2006**	2005
Issued by:				
Governments				
— in Mainland China	**486**	361	**486**	361
— outside Mainland China	**207**	234	**207**	234
The PBOC	**—**	49	**—**	49
Policy banks				
— in Mainland China	**116**	718	**116**	718
— outside Mainland China	**139**	142	**100**	142
Banks and non-bank financial institutions outside Mainland China	**3,253**	615	**1,229**	615
Public sector entities outside Mainland China	**—**	244	**—**	244
Others				
— in Mainland China (note)	**986**	—	**986**	—
— outside Mainland China	**429**	70	**330**	70
	5,616	2,433	**3,454**	2,433
Listed in Hong Kong	**227**	—	**150**	—
Listed outside Hong Kong	**1,691**	—	**1,361**	—
Unlisted	**3,698**	2,433	**1,943**	2,433
Total	**5,616**	2,433	**3,454**	2,433

Note: Others in Mainland China as at 31 December 2006 represent debt securities issued by state-owned enterprises and joint-stock enterprises of RMB799 million (2005: Nil) and RMB187 million (2005: Nil) respectively.

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19 INVESTMENTS IN SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. Unless otherwise stated, the class of all shares held is ordinary. All of these companies are subsidiaries as defined under Note 1(c) and have been included in the scope of the consolidated financial statements of the Group.

Name of company	Place of incorporation and operation	Particulars of the issued and paid up capital	% of ownership directly held by the Bank	% of ownership indirectly held by the Bank	Principal activities
China Construction Bank (Asia) Corporation Limited ("CCB Asia") (formerly known as Bank of America (Asia) Limited)	Hong Kong	7.8 million shares of HK$40 each	—	100%	Commercial banking and related financial services
China Construction Bank (Asia) Limited	Hong Kong	300 million shares of HK$ 1 each	100%	—	Commercial banking and related financial services
Sino-German Bausparkasse Corporation Limited	PRC, limited liability company	150 million shares of RMB1 each	75.1%	—	Home mortgage loan and deposit taking business
CCB Principal Asset Management Co., Ltd. ("CCB Principal")	PRC, limited liability company	200 million shares of RMB1 each	65%	—	Fund management services

20 INTEREST IN ASSOCIATE

The Group's interest in its associate which is unlisted, is as follows:

Name of Company	Place of incorporation	Particulars of issued and paid up capital	% of ownership indirectly held by the Bank	Principal activity
QBE Hongkong and Shanghai Insurance Company, Limited	Hong Kong	19.9 million ordinary shares of HK$1 each	25.50%	Insurance

21 PROPERTY AND EQUIPMENT

(a) Group

	Bank premises (Note 21(c))	Construction in progress	Computer equipment	Others	Total
Cost or deemed cost:					
As at 1 January 2006	**38,987**	**2,344**	**11,369**	**6,324**	**59,024**
Additions	**1,162**	**1,761**	**3,787**	**2,809**	**9,519**
Disposals	**(348)**	**(77)**	**(841)**	**(1,160)**	**(2,426)**
Additions through acquisition of subsidiary	**44**	**—**	**85**	**73**	**202**
Transfers	**1,667**	**(2,480)**	**229**	**584**	**—**
As at 31 December 2006	**41,512**	**1,548**	**14,629**	**8,630**	**66,319**
Accumulated depreciation and impairment losses:					
As at 1 January 2006	**(3,658)**	**(49)**	**(4,707)**	**(649)**	**(9,063)**
Depreciation charges	**(1,608)**	**—**	**(2,581)**	**(1,809)**	**(5,998)**
Impairment losses	**(28)**	**(13)**	**—**	**(1)**	**(42)**
Disposals	**110**	**57**	**810**	**997**	**1,974**
Additions through acquisition of subsidiary	**(20)**	**—**	**(76)**	**(57)**	**(153)**
As at 31 December 2006	**(5,204)**	**(5)**	**(6,554)**	**(1,519)**	**(13,282)**
Net carrying value:					
As at 31 December 2006	**36,308**	**1,543**	**8,075**	**7,111**	**53,037**
Cost or deemed cost:					
As at 1 January 2005	38,352	764	9,576	5,000	53,692
Additions	1,103	2,225	2,434	2,593	8,355
Disposals	(701)	(2)	(705)	(1,615)	(3,023)
Transfers	233	(643)	64	346	—
As at 31 December 2005	38,987	2,344	11,369	6,324	59,024
Accumulated depreciation and impairment losses:					
As at 1 January 2005	(2,024)	—	(2,947)	(277)	(5,248)
Depreciation charges	(1,624)	—	(2,434)	(1,585)	(5,643)
Impairment losses	(234)	(50)	(4)	(5)	(293)
Disposals	224	1	678	1,218	2,121
As at 31 December 2005	(3,658)	(49)	(4,707)	(649)	(9,063)
Net carrying value:					
As at 31 December 2005	35,329	2,295	6,662	5,675	49,961

Note: As at 31 December 2006, ownership documentation for the Group's bank premises with a net carrying value of RMB3,442 million (2005: RMB1,152 million) was being finalised.

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

21 PROPERTY AND EQUIPMENT (CONTINUED)

(b) Bank

	Bank premises (Note 21(c))	Construction in progress	Computer equipment	Others	Total
Cost or deemed cost:					
As at 1 January 2006	**38,919**	**2,344**	**11,363**	**6,316**	**58,942**
Additions	**1,161**	**1,761**	**3,769**	**2,788**	**9,479**
Disposals	**(346)**	**(77)**	**(841)**	**(1,160)**	**(2,424)**
Transfers	**1,667**	**(2,480)**	**229**	**584**	**—**
As at 31 December 2006	**41,401**	**1,548**	**14,520**	**8,528**	**65,997**
Accumulated depreciation and impairment losses:					
As at 1 January 2006	**(3,658)**	**(49)**	**(4,704)**	**(647)**	**(9,058)**
Depreciation charges	**(1,608)**	**—**	**(2,578)**	**(1,802)**	**(5,988)**
Impairment losses	**(27)**	**(13)**	**—**	**(1)**	**(41)**
Disposals	**110**	**57**	**810**	**997**	**1,974**
As at 31 December 2006	**(5,183)**	**(5)**	**(6,472)**	**(1,453)**	**(13,113)**
Net carrying value:					
As at 31 December 2006	**36,218**	**1,543**	**8,048**	**7,075**	**52,884**
Cost or deemed cost:					
As at 1 January 2005	38,292	764	9,570	4,992	53,618
Additions	1,095	2,225	2,433	2,588	8,341
Disposals	(701)	(2)	(704)	(1,610)	(3,017)
Transfers	233	(643)	64	346	—
As at 31 December 2005	38,919	2,344	11,363	6,316	58,942
Accumulated depreciation and impairment losses:					
As at 1 January 2005	(2,024)	—	(2,944)	(273)	(5,241)
Depreciation charges	(1,621)	—	(2,433)	(1,583)	(5,637)
Impairment losses	(234)	(50)	(4)	(5)	(293)
Disposals	221	1	677	1,214	2,113
As at 31 December 2005	(3,658)	(49)	(4,704)	(647)	(9,058)
Net carrying value:					
As at 31 December 2005	35,261	2,295	6,659	5,669	49,884

Note: As at 31 December 2006, ownership documentation for the Bank's bank premises with a net carrying value of RMB3,442 million (2005: RMB1,152 million) was being finalised.

21 PROPERTY AND EQUIPMENT (CONTINUED)

(c) Analysed by remaining term of leases

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

	Group		Bank	
	2006	2005	**2006**	2005
Long term leases (over 50 years), held in Hong Kong	**123**	102	**51**	53
Medium term leases (10–50 years), held in Mainland China	**35,942**	35,012	**35,924**	34,993
Short term leases (less than 10 years), held in Mainland China	**243**	215	**243**	215
Total	**36,308**	35,329	**36,218**	35,261

22 GOODWILL

	Group
	2006
Cost:	
Addition through acquisition of a subsidiary and balance as at 31 December (note 32(c)(iii))	**1,743**

Impairment test for cash-generating unit containing goodwill

Goodwill is allocated to the Group's cash-generating unit ("CGU"), the Hong Kong subsidiary acquired on 29 December 2006.

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial forecasts approved by management covering a ten-year period. Cash flows beyond the ten-year period are extrapolated using the estimate rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

Key assumptions used for value-in-use calculations:

	2006
	%
Growth rate after the ten-year period	**5.0**
Discount rate	**9.0**

The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used reflect specific risks relating to the relevant segments.

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23 DEFERRED TAX

(a) Analysed by nature

	Group		Bank	
	2006	2005	**2006**	2005
Deferred tax assets	**2,701**	420	**2,682**	420
Deferred tax liabilities	**(25)**	—	**(25)**	—
Net balance	**2,676**	420	**2,657**	420

(b) Movements of deferred tax

Group

The components of deferred tax assets/(liabilities) recognised in the consolidated balance sheet and the movements during the year are as follows:

	In Mainland China				Outside Mainland China		
	Interest recognition for short-term debt securities	Deferral or amortisation of subordinated bonds issue costs	Fair value adjustments for securities (note (i))	Allowances for loans and advances to customers	Fair value adjustments for securities (note (i))	Others	Deferred tax assets/ (liabilities)
As at 1 January 2006	**—**	**(31)**	**444**	**—**	**7**	**—**	**420**
Recognised in income statement	**—**	**4**	**—**	**2,064**	**—**	**—**	**2,068**
Recognised in equity	**—**	**—**	**201**	**—**	**(32)**	**—**	**169**
Addition through acquisition of subsidiary	**—**	**—**	**—**	**—**	**—**	**19**	**19**
As at 31 December 2006	**—**	**(27)**	**645**	**2,064**	**(25)**	**19**	**2,676**
As at 1 January 2005	(522)	(35)	231	—	(62)	—	(388)
Recognised in income statement	522	4	(55)	—	26	—	497
Recognised in equity	—	—	268	—	43	—	311
As at 31 December 2005	—	(31)	444	—	7	—	420

23 DEFERRED TAX (CONTINUED)

(b) Movements of deferred tax (Continued)

Bank

The components of deferred tax assets/(liabilities) recognised in the balance sheet and the movements during the year are as follows:

	In Mainland China				Outside Mainland China	
	Interest recognition for short-term debt securities	Deferral or amortisation of subordinated bonds issue costs	Fair value adjustments for securities (note (i))	Allowances for loans and advances to customers	Fair value adjustments for securities (note (i))	Deferred tax assets/ (liabilities)
As at 1 January 2006	**—**	**(31)**	**444**	**—**	**7**	**420**
Recognised in income statement	**—**	**4**	**—**	**2,064**	**—**	**2,068**
Recognised in equity	**—**	**—**	**201**	**—**	**(32)**	**169**
Addition through acquisition of subsidiary	**—**	**—**	**—**	**—**	**—**	**—**
As at 31 December 2006	**—**	**(27)**	**645**	**2,064**	**(25)**	**2,657**
As at 1 January 2005	(522)	(35)	231	—	(62)	(388)
Recognised in income statement	522	4	(55)	—	26	497
Recognised in equity	—	—	268	—	43	311
As at 31 December 2005	—	(31)	444	—	7	420

Notes:

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

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

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24 OTHER ASSETS

	Group		Bank	
	2006	2005	**2006**	2005
Interest receivable				
— debt securities	**15,193**	11,695	**15,170**	11,695
— loans and advances to customers	**5,509**	4,294	**5,421**	4,294
— others	**590**	1,080	**557**	1,080
	21,292	17,069	**21,148**	17,069
Land use rights	**18,064**	18,449	**18,064**	18,449
Positive fair value of derivatives (note and Note 37(f))	**14,514**	12,146	**14,286**	12,146
Repossessed assets	**1,453**	1,877	**1,408**	1,877
Intangible assets	**1,131**	978	**1,127**	978
Others	**7,247**	5,414	**6,830**	5,254
Total	**63,701**	55,933	**62,863**	55,773

Note: Positive fair value of derivatives

The balance as at 31 December 2006 includes the fair value of the foreign exchange option, amounting to RMB12,058 million (2005: RMB9,545 million), which was purchased to hedge the currency risk arising from the separately managed US dollar denominated investment portfolio (Note 37(d)).

The premium payable in respect of the purchase of above option is stated at a discounted value of RMB5,496 million (2005: RMB5,348 million) and is included under other liabilities and provisions (Note 27).

25 AMOUNTS DUE TO BANKS AND NON-BANK FINANCIAL INSTITUTIONS

(a) Analysed by nature

	Group		Bank	
	2006	2005	**2006**	2005
Balances under repurchase agreements	**3,905**	21,189	**3,905**	21,189
Money market takings	**25,548**	17,540	**25,459**	17,324
Deposits	**214,515**	125,795	**214,429**	125,795
Total	**243,968**	164,524	**243,793**	164,308

25 AMOUNTS DUE TO BANKS AND NON-BANK FINANCIAL INSTITUTIONS (CONTINUED)

(b) Analysed by geographical location

	Group		Bank	
	2006	2005	**2006**	2005
Balances payable on demand				
— Banks in Mainland China	**11,854**	6,591	**11,854**	6,591
— Non-bank financial institutions in Mainland China	**190,533**	78,726	**190,533**	78,726
	202,387	85,317	**202,387**	85,317
— Banks outside Mainland China	**128**	322	**42**	322
— Non-bank financial institutions outside Mainland China	**53**	—	**53**	—
	181	322	**95**	322
Term deposits				
— Banks in Mainland China	**13,993**	10,849	**13,993**	10,849
— Non-bank financial institutions in Mainland China	**6,819**	33,922	**6,819**	33,922
	20,812	44,771	**20,812**	44,771
— Banks outside Mainland China	**14,677**	20,612	**14,604**	20,410
— Non-bank financial institutions outside Mainland China	**5,911**	13,502	**5,895**	13,488
	20,588	34,114	**20,499**	33,898
Total	**243,968**	164,524	**243,793**	164,308

(c) Analysed by legal form of counterparty

	Group		Bank	
	2006	2005	**2006**	2005
Balances with				
— PRC policy banks	**89**	137	**89**	137
— PRC state-owned banks and non-bank financial institutions	**30,995**	106,219	**30,995**	106,219
— PRC joint-stock banks and non-bank financial institutions	**175,109**	19,389	**175,109**	19,389
— Foreign-invested banks and non-bank financial institutions	**37,775**	38,779	**37,600**	38,563
Total	**243,968**	164,524	**243,793**	164,308

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26 DEPOSITS FROM CUSTOMERS

(a) Analysed by nature

	Group		Bank	
	2006	2005	**2006**	2005
Demand deposits				
— Corporate customers	**1,781,875**	1,475,119	**1,779,362**	1,475,038
— Personal customers	**834,809**	709,026	**830,618**	708,705
	2,616,684	2,184,145	**2,609,980**	2,183,743
Time deposits				
— Corporate customers	**715,743**	632,350	**706,115**	631,057
— Personal customers	**1,388,829**	1,189,551	**1,376,748**	1,189,428
	2,104,572	1,821,901	**2,082,863**	1,820,485
Total	**4,721,256**	4,006,046	**4,692,843**	4,004,228

(b) Analysed by geographical segments

	Group		Bank	
	2006	2005	**2006**	2005
Yangtze River Delta	**984,000**	828,647	**984,000**	828,647
Pearl River Delta	**735,391**	620,375	**735,391**	620,375
Bohai Rim	**924,942**	802,270	**924,578**	801,973
Central	**810,662**	687,258	**810,662**	687,258
Western	**776,246**	671,263	**776,246**	671,263
Northeastern	**369,657**	322,758	**369,657**	322,758
Head office	**72,828**	58,897	**72,828**	58,897
Outside Mainland China	**47,530**	14,578	**19,481**	13,057
Total	**4,721,256**	4,006,046	**4,692,843**	4,004,228

The definitions of geographical segments are set out in Note 36(b).

27 OTHER LIABILITIES AND PROVISIONS

	Group		Bank	
	2006	2005	**2006**	2005
Interest payable				
— deposits from customers	**33,293**	25,205	**33,217**	25,205
— others	**1,012**	927	**983**	927
	34,305	26,132	**34,200**	26,132
Salaries and welfare payables (Note 27(a))	**10,373**	9,505	**10,230**	9,505
Supplementary retirement benefit obligations (Note 28(b))	**5,889**	5,621	**5,889**	5,621
Foreign exchange option premium payable (Notes 24 and 37(d))	**5,496**	5,348	**5,496**	5,348
Payables to Jianyin (Notes 27(b) and 39(a))	**5,320**	5,211	**5,320**	5,211
Dormant accounts	**4,571**	2,860	**4,571**	2,860
Business tax and other tax payables	**4,076**	3,451	**4,074**	3,451
Negative fair value of derivatives (Note 37(f))	**2,715**	2,490	**2,522**	2,490
Bond redemption payable	**2,701**	2,063	**2,701**	2,063
Litigation provisions (Note 27(c))	**1,637**	1,802	**1,637**	1,802
Payment and collection clearance account	**1,462**	1,333	**1,462**	1,333
Settlement accounts	**1,285**	897	**1,285**	897
Dividend payable (Note 31(b))	**—**	3,268	**—**	3,268
Others	**7,201**	6,509	**5,990**	6,389
Total	**87,031**	76,490	**85,377**	76,370

(a) Salaries and welfare payables

The payables to defined contribution retirement schemes included under salaries and welfare payables at the balance sheet date are as follows:

	Group and Bank	
	2006	2005
Payables to defined contribution retirement schemes	**1,591**	1,082

(b) Payables to Jianyin

The balance as at 31 December 2006 included a payable of RMB5,307 million (2005: RMB5,211 million) to China Jianyin Investment Limited ("Jianyin"), arising from the receipt of a bill issued by the PBOC with a nominal value of RMB21,000 million (Note 18(a)), which exceeded net advances made by CCB for the liquidation of a trust and investment company, plus the interest accrual on such excess portion.

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27 OTHER LIABILITIES AND PROVISIONS (CONTINUED)

(c) Litigation provisions

	Group and Bank	
	2006	2005
As at 1 January	**1,802**	2,107
Charge for the year	**230**	5
Payments made	**(395)**	(310)
As at 31 December	**1,637**	1,802

28 RETIREMENT BENEFITS

(a) Statutory retirement schemes

In accordance with the labour regulations of the PRC, the Group participates in various defined contribution retirement schemes organised by the municipal and provincial governments for its employees in Mainland China. The Group is required to make contributions to a separate entity which could be the government or publicly administered retirement schemes at certain rates of the salaries, bonuses and certain allowances of its employees. A member of the schemes is entitled to a pension equal to a fixed proportion of the salary prevailing at his or her retirement date.

For its employees outside Mainland China, the Group participates in various defined contribution retirement schemes at funding rates determined in accordance with the local practices and regulations.

The Group has no other material obligations for the payment of its employees' retirement and other post retirement benefits other than the contributions described above and in Note 28(b) below.

(b) Supplementary retirement benefits

The Group pays supplementary retirement benefits for its employees in Mainland China who retired on or before 31 December 2003 ("Eligible Employees"). The amounts recognised in the balance sheet represent the present value of unfunded obligations.

The Group's obligations in respect of the supplementary retirement benefits at the balance sheet date were reviewed by an independent actuary, Towers, Perrin, Forster & Crosby, Inc., Hong Kong, whose actuaries are members of the Society of Actuaries of the United States of America, using the projected unit credit actuarial cost method.

Net liabilities recognised in the balance sheets of the Group and the Bank represent:

	2006	2005
Present value of the obligations	**6,194**	5,758
Unrecognised actuarial losses	**(305)**	(137)
As at 31 December	**5,889**	5,621

28 RETIREMENT BENEFITS (CONTINUED)

(b) Supplementary retirement benefits (Continued)

Movements in the net liabilities recognised in the balance sheets of the Group and the Bank are as follows:

	2006	2005
As at 1 January	**5,621**	5,743
Payments made	**(386)**	(361)
Expense recognised as staff costs in the income statement		
— interest cost	**195**	239
— past service costs (note)	**459**	—
As at 31 December	**5,889**	5,621

Note: The Bank increased the retirement benefits payable to Eligible Employees in 2006. The adjustment of pension benefits resulted in the increase in the present value of supplementary retirement benefit obligations by RMB459 million as at 31 December 2006.

Principal actuarial assumptions at the balance sheet date are as follows:

	2006	2005
Discount rate	**3.25%**	3.50%
Health care cost increases	**7.00%**	7.00%
Average expected future lifetime of Eligible Employees	**14.5 years**	15.1 years

29 SUBORDINATED BONDS ISSUED

The carrying value of the Group's subordinated bonds issued upon the approval of the PBOC and the CBRC is as follows:

		Group and Bank	
	Note	**2006**	2005
4.87% subordinated fixed rate bonds maturing in August 2014	(i)	**11,140**	11,140
Subordinated floating rate bonds maturing in August 2014	(ii)	**3,860**	3,860
4.95% subordinated fixed rate bonds maturing in September 2014	(iii)	**8,300**	8,300
Subordinated floating rate bonds maturing in December 2014	(iv)	**6,078**	6,078
4.95% subordinated fixed rate bonds maturing in December 2014	(v)	**10,622**	10,622
Total nominal value		**40,000**	40,000
Less: Unamortised issuance cost		**(83)**	(93)
Net carrying value		**39,917**	39,907

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29 SUBORDINATED BONDS ISSUED (CONTINUED)

Notes:

(i) The interest rate per annum on the subordinated fixed rate bonds is 4.87%. The Group has an option to redeem the bonds on 1 August 2009. If they are not redeemed early, the interest rate of the bonds will increase in August 2009 to 7.67% per annum for the next five years.

(ii) The interest rate per annum on the subordinated floating rate bonds is the PBOC one-year fixed deposit rate, which is reset annually, plus an interest margin of 2.00%. The Group has an option to redeem the bonds on 1 August 2009. If they are not redeemed early, the interest margin of the bonds will increase to 2.75% from August 2009 for the next five years.

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

(iv) The interest rate per annum on the subordinated floating rate bonds is the weighted 7-day repo rate quoted in the PRC interbank money market plus an interest margin of 2.00%. It is reset every six months. The Group has an option to redeem the bonds on 27 December 2009. If they are not redeemed early, the interest margin will increase to 3.00% from December 2009 for the next five years.

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

30 EQUITY

(a) Share capital

	2006		2005	
	No. of shares	**Amount**	No. of shares	Amount
Registered, issued and fully paid:				
Ordinary shares of RMB1 each:				
As at 1 January	**224,689**	**224,689**	194,230	194,230
Shares issued	**—**	**—**	30,459	30,459
As at 31 December	**224,689**	**224,689**	224,689	224,689

On 17 September 2004, the Bank was incorporated with a registered and paid-up capital of RMB194,230 million divided into 194,230 million shares with a par value of RMB1 each. These shares are collectively referred to as Original Unlisted Shares.

Upon completion of the IPO on 27 October 2005, all the Original Unlisted Shares were converted into H shares which are listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "SEHK").

On 27 October 2005, a total of 26,486 million H shares with a par value of RMB1 each were issued by the Bank at a subscription price of HK$ 2.35 per share as part of the Initial Public Offering in 2005.

On 14 November 2005, a total of 3,973 million H shares with a par value of RMB1 each were issued by the Bank at a subscription price of HK$ 2.35 per share as a result of the exercise of the over-allotment option.

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

30 EQUITY (CONTINUED)

(b) Capital reserve

The capital reserve generally records transactions of the following nature:

(i) share premium arising from the issuance of shares at prices in excess of their par value; and

(ii) any other item required by PRC regulations to be so treated.

Capital reserve may be used for increasing paid-in capital as approved by the shareholders.

	2005
Gross proceeds upon issue of shares	74,639
Shares at par value	(30,459)
Share premium before costs of issuing shares	44,180
Costs of issuing shares	(2,089)
Share premium recognised in capital reserve	42,091

As described in Note 30(a), the Bank issued a total of 30,459 million ordinary shares of RMB1 each at a total consideration of RMB74,639 million in 2005. After accounting for interest income and costs directly associated with the share issues, the Bank credited the share premium of RMB42,091 million to the capital reserve.

(c) Surplus reserves

Prior to 1 January 2006, surplus reserves consist of statutory surplus reserve fund, discretionary surplus reserve fund and statutory public welfare fund. In accordance with the Company Law of the PRC (Revised in 2005), which was issued on 27 October 2005, the Bank is no longer required to make further appropriation to the statutory public welfare fund with effect from 1 January 2006.

In 2006, the Bank transferred the balance of the statutory public welfare fund of RMB2,167 million as at 31 December 2005 to the statutory surplus reserve fund in accordance with a notice, Cai Qi [2006] No.67, issued by the MOF on 15 March 2006.

The Bank is required to appropriate 10% of its net profit, as determined under the Accounting Standards for Business Enterprises, the *Accounting Regulations for Financial Enterprises* (2001) and other relevant regulations issued by the MOF (collectively "PRC GAAP"), to the statutory surplus reserve fund until the reserve balance reaches 50% of the registered capital. After making the appropriation to the statutory surplus reserve fund, the Bank may also appropriate its net profit to the discretionary surplus reserve fund upon approval by shareholders in general meeting.

Subject to the approval of shareholders, statutory and discretionary surplus reserve funds may be used to make good prior year losses, if any, and may be converted into capital, provided that the balance of statutory surplus reserve fund after such capitalisation is not less than 25% of the registered capital before such capitalisation.

(d) Investment revaluation reserve

The investment revaluation reserve has been accounted for in accordance with the accounting policies adopted for the measurement of the available-for-sale investments at fair value.

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

30 EQUITY (CONTINUED)

(e) General reserve

The general reserve of the Group and the Bank at 31 December 2006 comprises:

	Group		Bank	
	2006	2005	**2006**	2005
Set up under the MOF's requirements (note (i))	**10,284**	10,284	**10,284**	10,284
Set up under requirements of the Hong Kong Banking Ordinance (note (ii))	**56**	48	**56**	48
Set up under requirements of the China Securities Regulatory Commission (note (iii))	**2**	—	**—**	—
Set up under requirements of overseas regulatory body	**1**	—	**1**	—
	10,343	10,332	**10,341**	10,332

Notes:

(i) Pursuant to a notice, Cai Jin [2005] No. 49, issued by the MOF on 17 May 2005 and which became effective on 1 July 2005, banks and certain non-bank financial institutions in Mainland China, are required to set aside a general reserve (in addition to allowances for impairment losses) to cover potential losses against their assets. The general reserve is in principle not less than 1% of the aggregate amount of risk-bearing assets, before allowances for impairment losses, at the balance sheet date. The general reserve forms part of the equity of the financial institution, and transfers to it are made through appropriations of profit after tax.

The MOF issued another notice, Cai Jin [2005] No. 90 on 5 September 2005. This notice requires financial institutions to set aside the required general reserve within a transitional period of approximately three years, but not more than five years, from 1 July 2005.

Management consider that the Bank will comply with the requirements of these notices before 30 June 2010.

(ii) Paragraph 9 of the Seventh Schedule to the Hong Kong Banking Ordinance requires the Group's banking operations in Hong Kong to set aside amounts in a regulatory reserve in respect of losses which it will, or may, incur on loans and advances to customers, in addition to impairment losses recognised in accordance with the accounting policies of the Group. Transfers to and from the regulatory reserve are made directly through retained earnings.

(iii) Pursuant to China Securities Regulatory Commissions [2006] No. 154 issued on 14 August 2006, fund management companies are required to set aside their profit to general reserve at an amount not less than 5% of the management fee. No further appropriation to the general reserve is required when the amount of the reserve equals to 1% of the net assets value of the funds under management. The general reserve forms part of the equity of the financial institution, and transfers to it are made through appropriations of profit after tax.

30 EQUITY (CONTINUED)

(f) Exchange reserve

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

(g) Distributability of reserves

At 31 December 2006, the aggregate amount of reserves available for distribution to shareholders of the Bank was RMB42,708 million (2005: RMB4,607 million).

(h) Profit attributable to shareholders of the Bank

The consolidated profit attributable to shareholders of the Bank includes a profit of RMB46,112 million (2005: RMB46,957 million) which has been dealt with in the financial statements of the Bank.

31 PROFIT DISTRIBUTIONS

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

	Group		Bank	
	2006	2005	**2006**	2005
Appropriations to				
— Statutory surplus reserve fund	**4,632**	3,991	**4,632**	3,991
— Statutory public welfare fund	**—**	1,996	**—**	1,996
— General reserve	**11**	10,332	**9**	10,332
Profit distribution for settlement of government receivable	**—**	23,781	**—**	23,781
	4,643	40,100	**4,641**	40,100

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

	Group and Bank	
	2006	2005
Interim dividend declared during the year (note (i))	**—**	168
Special dividend declared and paid (note (ii))	**—**	3,100
Final cash dividend proposed after the balance sheet date of RMB0.092 per ordinary share (2005: RMB0.015 per ordinary share) (note (iii))	**20,671**	3,370
	20,671	6,638

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

31 PROFIT DISTRIBUTIONS (CONTINUED)

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

Notes:

(i) In the year 2005, the Bank appropriated 65% of its retained earnings of RMB480 million, which is determined under PRC GAAP, as at 30 June 2005 to the general reserve. The remaining 35% of the retained earnings, or RMB168 million, were distributed to the five promoters in the form of cash dividend.

(ii) In the year 2005, RMB3,100 million of the profit after tax for the period from and including 1 July 2005 to 26 October 2005, being the date immediately preceding the first date when the Bank's shares were listed (the "listing date"), was distributed in the form of cash dividend to those shareholders immediately preceding the listing date.

(iii) 45% of the profit after tax for the year ended 31 December 2006, as determined under PRC GAAP or IFRS, whichever is lower, will be distributed in the form of cash dividend to the Bank's shareholders as at the relevant record date.

On 13 April 2007, the Directors proposed a final cash dividend of RMB0.092 per share in respect of the year ended 31 December 2006. Subject to the agreement of the shareholders in the Annual General Meeting to be held on 13 June 2007, the total amount of approximately RMB20,671 million is payable to those on the register of shareholders as at 21 May 2007. This dividend has not been recognised as liability at the balance sheet date.

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

	Group and Bank	
	2006	2005
Final cash dividend RMB0.015 per ordinary share (2005: Nil)	**3,370**	—

32 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Cash and cash equivalents

	2006	2005
Cash	**30,191**	28,413
Surplus deposit reserve	**103,767**	108,395
Amounts due from banks and non-bank financial institutions	**82,185**	190,108
Less:		
— amounts due over three months when acquired	**(15,376)**	(32,362)
— balances under resale agreements	**(33,278)**	(13,797)
	33,531	143,949
Total	**167,489**	280,757

(b) Significant non-cash transactions

As approved by the shareholders in the general meeting on 6 June 2005, the Bank settled the government receivable of RMB23,781 million by the Bank's profit distribution during the six months ended 30 June 2005.

(c) Investment in new subsidiaries

(i) CCB Principal was established by the Bank, Principal Financial Services, Inc and China Huadian Group Corporation in 2005. On 19 September 2005 the Bank and the above two shareholders of CCB Principal paid cash of RMB130 million and RMB70 million as the initial capital of CCB Principal respectively. The Bank owns 65% of CCB Principal's registered capital at 31 December 2005 and 2006.

(ii) On 24 August 2006, the board of directors approved the acquisition of the entire issued share capital of Bank of America (Asia) Limited ("BOAA") from Bank of America Corporation, a shareholder of the Bank, for a consideration of HK$9,710 million. The aforesaid consideration represented approximately 1.32 times the net assets of BOAA as at 31 December 2005 of HK$7,382 million. The acquisition was completed on 29 December 2006 and BOAA was renamed as China Construction Bank (Asia) Corporation Limited ("CCB Asia"). CCB Asia is a licensed bank incorporated in Hong Kong and provides a broad range of personal and commercial banking related products and services.

For the year ended 31 December 2006, CCB Asia had no contribution to the net profit of the Group. If the acquisition had occurred on 1 January 2006, the Group's operating income would have been RMB152,914 million and net profit would have been RMB46,960 million in 2006.

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

32 NOTES TO CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

(c) Investment in new subsidiaries (Continued)

(iii) Effect of acquisition

The acquisition had the following effect on the Group's assets and liabilities.

Acquiree's net assets at the acquisition date

	Note	Recognised values	Fair value adjustments	Carrying amounts
Cash and balances with central banks		83	—	83
Amounts due from banks and other non-bank financial institutions		6,058	—	6,058
Loans and advances to customers		26,570	—	26,570
Investments		3,481	—	3,481
Interest in associate		103	—	103
Property and equipment		49	—	49
Deferred tax assets		22	—	22
Other assets		728	—	728
Amounts due to banks and other non-bank financial institutions		(160)	—	(160)
Deposits from customers		(26,271)	—	(26,271)
Certificates of deposit issued		(1,001)	(4)	(1,005)
Other liabilities and provisions		(1,594)	—	(1,594)
Net identifiable assets		8,068	(4)	8,064
Goodwill on acquisition	22	1,743		
Consideration paid, satisfied in cash		9,811		
Cash and cash equivalents acquired		(5,906)		
Net cash outflow		3,905		

33 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Credit commitments

At any given time the Group has outstanding commitments to extend credit. These commitments take the form of approved loans and credit card limits.

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties.

Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

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

	Group		Bank	
	2006	2005	**2006**	2005
Contractual amount				
Loan commitments				
— with an original maturity under one year	**28,370**	16,961	**25,495**	16,080
— with an original maturity of one year or over	**209,167**	144,871	**209,115**	144,852
	237,537	161,832	**234,610**	160,932
Guarantees and letters of credit	**250,944**	183,638	**249,762**	183,503
Acceptances	**112,678**	138,826	**112,615**	138,737
Credit card commitments	**53,810**	37,421	**53,810**	37,421
Others	**6,306**	20,429	**6,306**	20,429
	661,275	542,146	**657,103**	541,022

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

	Group		Bank	
	2006	2005	**2006**	2005
Credit risk weighted amount of contingent liabilities and commitments	**303,508**	242,057	**302,471**	242,057

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

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

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

33 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

(b) Capital commitments

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

	Group		Bank	
	2006	2005	**2006**	2005
Purchase of property and equipment				
— contracted for	**1,978**	296	**1,972**	296
— not contracted for	**982**	967	**963**	967
Total	**2,960**	1,263	**2,935**	1,263

(c) Operating lease commitments

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

	Group		Bank	
	2006	2005	**2006**	2005
Within one year	**1,710**	1,387	**1,592**	1,369
After one year but within five years	**3,511**	3,020	**3,272**	2,982
After five years	**1,463**	1,087	**1,218**	1,087
Total	**6,684**	5,494	**6,082**	5,438

(d) Outstanding litigation and disputes

As at 31 December 2006, the Group was the defendant in certain pending litigation and disputes with gross claims of RMB2,566 million (2005: RMB2,607 million). Provisions have been made for the estimated losses of such litigation based upon the opinions of the Group's internal and external legal counsel (Note 27(c)). The Group considers that the provisions made are reasonable and adequate.

33 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

(e) Underwriting obligations

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

	Group and Bank	
	2006	2005
Underwriting obligations	**1,540**	1,980

(f) Redemption obligations

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

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

	Group and Bank	
	2006	2005
Redemption obligations	**92,243**	102,079

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

(g) Provision against commitments and contingent liabilities

The Group has assessed and made provision for any probable outflow of economic benefits in relation to the above commitments and contingent liabilities in accordance with its accounting policies. Except for the provisions made against outstanding litigation and disputes (Note 27(c)), the Group has not made other provisions in respect of the above commitments and contingent liabilities at the balance sheet date.

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

34 ASSETS PLEDGED AS SECURITY

The following debt securities have been pledged under repurchase agreements. The related secured liabilities are recorded as amounts due to central banks, or banks and non-bank financial institutions with similar carrying values at the balance sheet date.

	Group and Bank	
	2006	2005
Debt securities	**5,471**	20,882

35 TRANSACTIONS ON BEHALF OF CUSTOMERS

(a) Entrusted lending business

The Group provides entrusted lending business services to government agencies, business entities and individuals. All entrusted loans are made under the instruction or at the direction of these entities or individuals and are funded by entrusted funds from them.

For entrusted assets and liabilities and entrusted provident housing fund mortgage business, the Group generally does not take on credit risk in relation to these transactions. The Group acts as an agent to hold and manage these assets and liabilities at the direction of the entrustors and receives fee income for the services provided.

Trust assets are not assets of the Group and are not recognised in the balance sheet. Surplus funds are accounted for as deposits from customers. Income received and receivable for providing these services are included in the income statement as fee income.

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

	Group and Bank	
	2006	2005
Entrusted loans	**319,266**	255,012
Entrusted funds	**319,266**	255,012

(b) Wealth management services

The Group's wealth management services to customers mainly represents sales of wealth management products to corporate and personal banking customers. The funds obtained from wealth management services are invested in investment products, including government bonds, PBOC bills, notes issued by policy banks, short-dated corporate notes, trust loans and IPO shares. The credit risk, liquidity risk and interest rate risk associated with these products are borne by the customers who invest in these products. The Group only earns commission which represents the charges on customers in relation to the provision of custody, sales and management services. The income is recognised in the income statement as commission income.

The wealth management products and funds obtained are not assets and liabilities of the Group and are not recognised in the balance sheets. The funds obtained from wealth management services that have not yet been invested are treated as payables to customers and recorded under "Other liabilities and provisions".

35 TRANSACTIONS ON BEHALF OF CUSTOMERS (CONTINUED)

(b) Wealth management services (Continued)

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

	Group and Bank	
	2006	2005
Investments under wealth management services	**6,980**	1,748
Funds from wealth management services	**6,980**	1,748

36 SEGMENT REPORTING

The Group managed its business both by business segments and geographical segments. Accordingly, both business and geographical segment information is presented as the Group's primary segment reporting formats.

Measurement of segment assets and liabilities and segment income and results is based on the Group's accounting policies.

Transactions between segments are conducted under normal commercial terms and conditions. Internal charges and transfer pricing are determined with reference to market rates and have been reflected in the performance of each segment. Net interest income and expenses arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/expenses". Interest income and expenses earned from third parties are referred to as "external net interest income/expenses".

Segment revenues, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group entities within a single segment. Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year.

(a) Business segments

The Group comprises the following main business segments:

Corporate banking

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

Personal banking

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

Treasury business

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

Others and unallocated

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

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

36 SEGMENT REPORTING (CONTINUED)

(a) Business segments (Continued)

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

36 SEGMENT REPORTING (CONTINUED)

(a) Business segments (Continued)

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

36 SEGMENT REPORTING (CONTINUED)

(b) Geographical segments

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

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

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

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

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

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

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

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

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

36 SEGMENT REPORTING (CONTINUED)

(b) Geographical segments (Continued)

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

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36 SEGMENT REPORTING (CONTINUED)

(b) Geographical segments (Continued)

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

37 RISK MANAGEMENT

(a) Credit risk

Credit risk represents the potential loss that may arise from the failure of a debtor to meet its obligation or commitment to the Group. It arises primarily from the Group's credit asset portfolios.

To identify, evaluate, monitor and manage credit risk, the Group designs the necessary organisation framework, credit policies and processes required for effective credit risk management, and implements them across the whole Group upon approval by the Risk Management and Internal Control Committee and by the president. The Risk Management and Internal Control Committee are responsible for organising and coordinating the risk management and internal control functions within the Group, and guiding the department members of the committee in fulfilling their responsibilities.

With respect to daily operations, the Risk Management Department, under the direction of the Risk Management and Internal Control Committee, is responsible for formulating the Group's risk management policies, the Risk Monitoring Department is responsible for monitoring the implementation of risk management policies, the Credit Approval Department is responsible for organising credit approval and loan grading related activities. These risk management departments share and coordinate the work of the Corporate Banking Department, the Housing Finance & Personal Lending Department, the Special Assets Resolution Department and the Legal Department in terms of the application of risk management.

To mitigate risk, the Group may demand collateral and guarantees where appropriate. In respect of the loan portfolios, the Group adopts a risk-based loan classification methodology and classifies loans into five categories: normal, special mention, substandard, doubtful and loss. The last three categories are considered as impaired loans and advances for which objective evidence of impairment exists based on a loss event or several events and which bear significant impairment losses. The allowances for impairment losses for the impaired loans and advances are assessed collectively or individually as appropriate.

The core definitions of the five categories of loans and advances are set out below:

Normal	:	Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
Special mention	:	Borrowers are able to service their loans currently, although repayment may be adversely affected by specific factors.
Substandard	:	Borrowers' abilities to service their loans are in question as they cannot rely entirely on normal business revenues to repay principal and interest. Losses may ensue even when collateral or guarantees are invoked.
Doubtful	:	Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collateral or guarantees are invoked.
Loss	:	Only a small portion or no principal and interest can be recovered after taking all possible measures and exhausting all legal remedies.

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37 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

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

	Group			
	2006		2005	
		%		%
Operations in Mainland China				
Corporate loans				
— manufacturing	**510,427**	**18.21**	433,104	17.87
— transportation, storage and postal services	**326,715**	**11.66**	278,532	11.49
— production and supply of electric power, gas and water	**318,493**	**11.36**	265,647	10.96
— property development	**302,290**	**10.79**	256,396	10.58
— construction	**96,580**	**3.45**	86,855	3.58
— water, environment and public utility management	**92,173**	**3.29**	75,959	3.13
— education	**77,458**	**2.76**	63,395	2.62
— wholesale and retail trade	**73,526**	**2.62**	63,179	2.61
— leasing and commercial services	**63,659**	**2.27**	47,444	1.96
— mining	**55,909**	**2.00**	49,332	2.04
— telecommunications, computer services and software	**38,962**	**1.39**	60,304	2.48
— others	**101,769**	**3.63**	95,644	3.94
Subtotal	**2,057,961**		1,775,791	
Personal loans	**585,085**	**20.88**	453,889	18.73
Discounted bills	**159,368**	**5.69**	194,122	8.01
Gross loans and advances to customers	**2,802,414**	**100.00**	2,423,802	100.00
Less: Allowances for impairment losses	**(77,339)**		(62,949)	
Net loans and advances to customers	**2,725,075**		2,360,853	

37 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

	Group			
	2006		2005	
		%		%
Operations outside Mainland China				
Corporate loans				
— property development	**15,292**	**21.48**	4,984	14.41
— manufacturing	**9,903**	**13.91**	8,550	24.71
— transportation, storage and postal services	**8,448**	**11.87**	7,314	21.14
— wholesale and retail trade	**5,005**	**7.03**	1,225	3.54
— telecommunications, computer services and software	**4,393**	**6.17**	4,379	12.66
— leasing and commercial services	**3,686**	**5.18**	3,328	9.62
— production and supply of electric power, gas and water	**3,081**	**4.33**	1,652	4.78
— residential and other services	**2,895**	**4.07**	2,079	6.01
— public management and social organisation	**1,412**	**1.98**	67	0.19
— others	**1,455**	**2.04**	467	1.35
Subtotal	**55,570**		34,045	
Personal loans	**14,255**	**20.02**	364	1.05
Discounted bills	**1,370**	**1.92**	187	0.54
Gross loans and advances to customers	**71,195**	**100.00**	34,596	100.00
Less: Allowances for impairment losses	**(294)**		(136)	
Net loans and advances to customers	**70,901**		34,460	
Total net loans and advances to customers	**2,795,976**		2,395,313	

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37 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

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

	Bank			
	2006		2005	
		%		%
Operations in Mainland China				
Corporate loans				
— manufacturing	**510,427**	**18.21**	433,104	17.87
— transportation, storage and postal services	**326,715**	**11.66**	278,532	11.49
— production and supply of electric power, gas and water	**318,493**	**11.36**	265,647	10.96
— property development	**302,290**	**10.79**	256,396	10.58
— construction	**96,580**	**3.45**	86,855	3.58
— water, environment and public utility management	**92,173**	**3.29**	75,959	3.13
— education	**77,458**	**2.76**	63,395	2.62
— wholesale and retail trade	**73,526**	**2.62**	63,179	2.61
— leasing and commercial services	**63,659**	**2.27**	47,444	1.96
— mining	**55,909**	**2.00**	49,332	2.04
— telecommunications, computer services and software	**38,962**	**1.39**	60,304	2.48
— others	**101,769**	**3.63**	95,644	3.94
Subtotal	**2,057,961**		1,775,791	
Personal loans	**585,085**	**20.88**	453,889	18.73
Discounted bills	**159,368**	**5.69**	194,122	8.01
Gross loans and advances to customers	**2,802,414**	**100.00**	2,423,802	100.00
Less: Allowances for impairment losses	**(77,339)**		(62,949)	
Net loans and advances to customers	**2,725,075**		2,360,853	

37 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

	Bank			
	2006		2005	
		%		%
Operations outside Mainland China				
Corporate loans				
— manufacturing	**8,831**	**20.88**	8,458	26.03
— transportation, storage and postal services	**7,778**	**18.39**	7,300	22.46
— property development	**6,761**	**15.99**	4,407	13.56
— telecommunications, computer services and software	**4,312**	**10.20**	4,365	13.43
— wholesale and retail trade	**4,042**	**9.56**	1,084	3.34
— production and supply of electric power, gas and water	**3,061**	**7.24**	1,632	5.02
— leasing and commercial services	**3,022**	**7.14**	2,597	7.99
— residential and other services	**2,741**	**6.48**	1,898	5.84
— others	**1,467**	**3.47**	514	1.58
Subtotal	**42,015**		32,255	
Personal loans	**218**	**0.52**	54	0.17
Discounted bills	**57**	**0.13**	187	0.58
Gross loans and advances to customers	**42,290**	**100.00**	32,496	100.00
Less: Allowances for impairment losses	**(133)**		(123)	
Net loans and advances to customers	**42,157**		32,373	
Total net loans and advances to customers	**2,767,232**		2,393,226	

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37 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

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

	Group				Bank			
	2006		2005		**2006**		2005	
		%		%		%		%
Yangtze River Delta	**714,373**	**24.86**	608,384	24.75	**714,373**	**25.11**	608,384	24.77
Pearl River Delta	**399,229**	**13.89**	328,399	13.36	**399,229**	**14.03**	328,399	13.37
Bohai Rim	**549,755**	**19.13**	494,216	20.10	**549,755**	**19.33**	494,216	20.12
Central	**463,670**	**16.14**	405,956	16.51	**463,670**	**16.30**	405,956	16.53
Western	**469,428**	**16.34**	398,664	16.22	**469,428**	**16.50**	398,664	16.23
Northeastern	**177,771**	**6.19**	152,762	6.21	**177,771**	**6.25**	152,762	6.22
Head office	**28,188**	**0.98**	35,421	1.44	**28,188**	**0.99**	35,421	1.44
Outside Mainland China	**71,195**	**2.47**	34,596	1.41	**42,290**	**1.49**	32,496	1.32
Gross loans and advances to customers	**2,873,609**	**100.00**	2,458,398	100.00	**2,844,704**	**100.00**	2,456,298	100.00
Less: Allowances for impairment losses	**(77,633)**		(63,085)		**(77,472)**		(63,072)	
Net loans and advances to customers	**2,795,976**		2,395,313		**2,767,232**		2,393,226	

The definitions of geographical segments are set out in Note 36(b).

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

	Group		Bank	
	2006	2005	**2006**	2005
Loans secured by monetary assets	**265,074**	202,546	**264,258**	202,456
Loans secured by tangible assets, other than monetary assets	**1,212,165**	935,706	**1,186,402**	934,669
Guaranteed loans	**681,167**	633,180	**680,897**	632,797
Unsecured loans	**715,203**	686,966	**713,147**	686,376
Gross loans and advances to customers	**2,873,609**	2,458,398	**2,844,704**	2,456,298
Less: Allowances for impairment losses	**(77,633)**	(63,085)	**(77,472)**	(63,072)
Net loans and advances to customers	**2,795,976**	2,395,313	**2,767,232**	2,393,226

37 RISK MANAGEMENT (CONTINUED)

(b) Market risk

Market risk is the risk of loss, in respect of the Group's on and off-balance sheet activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices and stock prices etc. Market risk arises from both the Group's trading and non-trading business.

The Risk Management Department is responsible for formulating the Group's market risk management policies, the Risk Monitoring Department monitors the implementation of those policies. The Asset and Liability Management Department (the "ALM") of the Bank is responsible for managing the size and structure of the balance sheet, and risk of interest rates and foreign exchange rates, in accordance with the Group's risk management policies. The Treasury Department manages the Group's RMB and foreign currency investment portfolios, conducts proprietary and customer-driven dealings, implements market risk management policies and rules and performs daily identification, measurement, assessment and control of risks in treasury operations.

Value-at-risk ("VaR") analysis, sensitivity analysis and stress testing are the major tools used by the Group to measure and monitor the market risk of its trading business. Gap analysis, interest income sensitivity analysis, economic value analysis and stress testing are the major tools used by the Group to monitor the market risk of its non-trading business.

VaR is a technique which estimates the potential losses that could occur on risk positions taken, due to movements in market rates, foreign exchange rates and prices over a specified time horizon and at a given level of confidence. The ALM and Treasury Department calculates interest rate and exchange rate VaR across its foreign currency debt investments. It uses historical movements in market rates and prices, at a 99% confidence level, with a 1-day holding period. VaR is calculated on a daily basis for foreign currency portfolios. This technique has gradually extended to the debt investment portfolio denominated in RMB.

Stress testing is a technique used to assess the impact on the Group's net interest income and economic value against scenarios using stress moves in a series of market variables, and the results are regularly reviewed.

Gap analysis is a technique to analyse the re-pricing profile of assets and liabilities into time buckets and compare the gap in each time bucket to measure the interest rate re-pricing risk.

The Group considers that any market risk arising from its proprietary trading account is not material.

(c) Interest rate risk

The Group's interest rate exposures mainly comprise structural interest rate exposure of commercial banking business and trading positions of treasury operations.

(i) *Structural interest rate risk*

Interest rate risk is inherent in many of the Group's businesses. It mainly arises from mismatches between repricing dates of assets and liabilities.

The ALM regularly monitors such interest rate risk positions. In terms of measuring and managing the interest rate risk, the Group regularly measures interest rate sensitive repricing gap, and the impact on the Group's net interest income and economic value under scenarios of different interest rates. The primary objective of such interest rate risk management is to reduce potential adverse effects on net interest income and economic value due to interest rate movements.

(ii) *Trading interest rate risk*

The major part of this risk arises from the treasury's investment portfolios. The interest rate risk is monitored using the VaR method described above. Complementary methods are also applied, to capture the portfolio's sensitivities to interest rate movements, expressed as the fair value change for one basis point (0.01%) interest rate movement.

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

37 RISK MANAGEMENT (CONTINUED)

(c) Interest rate risk (Continued)

Group

The following tables indicate the effective interest rates for the year and the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities of the Group at the balance sheet date:

		2006					
	Effective interest rate (note (i))	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one and five years	More than five years
Assets							
Cash and balances with central banks	1.70%	539,673	30,191	509,482	—	—	—
Amounts due from banks and non-bank financial institutions	3.33%	82,185	—	77,067	4,879	239	—
Loans and advances to customers (note (ii))	5.57%	2,795,976	—	1,200,801	1,532,253	38,106	24,816
Investments	2.92%	1,909,392	9,617	269,623	618,099	597,663	414,390
Others	—	121,285	121,285	—	—	—	—
Total assets	4.28%	5,448,511	161,093	2,056,973	2,155,231	636,008	439,206
Liabilities							
Amounts due to central banks	2.58%	1,256	—	1,256	—	—	—
Amounts due to banks and non-bank financial institutions	2.21%	243,968	—	239,020	4,698	250	—
Deposits from customers	1.53%	4,721,256	36,346	3,348,482	989,439	335,151	11,838
Certificates of deposit issued	4.17%	6,957	—	4,718	1,443	796	—
Others	—	104,953	104,953	—	—	—	—
Subordinated bonds issued	4.72%	39,917	—	—	9,917	30,000	—
Total liabilities	1.59%	5,118,307	141,299	3,593,476	1,005,497	366,197	11,838
Asset-liability gap	2.69%	330,204	19,794	(1,536,503)	1,149,734	269,811	427,368

37 RISK MANAGEMENT (CONTINUED)

(c) Interest rate risk (Continued)

Group

	2005						
	Effective interest rate (note (i))	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one and five years	More than five years
Assets							
Cash and balances with central banks	1.63%	480,136	28,413	451,723	—	—	—
Amounts due from banks and non-bank financial institutions	2.14%	190,108	—	147,801	42,031	276	—
Loans and advances to customers (note (ii))	5.39%	2,395,313	86	1,028,552	1,312,723	38,971	14,981
Investments	2.88%	1,413,871	11,672	140,108	420,801	621,237	220,053
Others	—	106,314	106,314	—	—	—	—
Total assets	4.14%	4,585,742	146,485	1,768,184	1,775,555	660,484	235,034
Liabilities							
Amounts due to central banks	1.89%	21	—	21	—	—	—
Amounts due to banks and non-bank financial institutions	1.77%	164,524	—	136,089	27,814	621	—
Deposits from customers	1.39%	4,006,046	40,789	2,770,313	905,529	276,616	12,799
Certificates of deposit issued	2.82%	5,429	—	4,198	527	704	—
Others	—	82,138	82,138	—	—	—	—
Subordinated bonds issued	4.63%	39,907	—	—	9,915	29,992	—
Total liabilities	1.44%	4,298,065	122,927	2,910,621	943,785	307,933	12,799
Asset-liability gap	2.70%	287,677	23,558	(1,142,437)	831,770	352,551	222,235

Notes:

(i) Effective interest rate represents the ratio of interest income/expense to average interest bearing assets/liabilities.

(ii) For loans and advances to customers, the above "Less than three months" category includes overdue amounts (net of allowances for impairment losses) of RMB52,520 million as at 31 December 2006 (2005: RMB68,412 million). Overdue amounts represent loans, of which the whole or part of the principals was overdue, or interest was overdue for more than 90 days but for which principal was not yet due.

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

37 RISK MANAGEMENT (CONTINUED)

(c) Interest rate risk (Continued)

Bank

The following tables indicate the effective interest rates for the year and the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities of the Bank at the balance sheet date:

	2006						
	Effective interest rate (note (i))	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one and five years	More than five years
Assets							
Cash and balances with central banks	1.70%	539,556	30,104	509,452	—	—	—
Amounts due from banks and non-bank financial institutions	3.35%	76,026	—	70,908	4,879	239	—
Loans and advances to customers (note (ii))	5.57%	2,767,232	—	1,173,119	1,531,655	37,779	24,679
Investments	2.92%	1,903,987	9,150	269,205	617,639	593,831	414,162
Amounts due from subsidiaries	4.44%	12,047	9,800	1,745	502	—	—
Others	—	119,055	119,055	—	—	—	—
Total assets	4.28%	5,417,903	168,109	2,024,429	2,154,675	631,849	438,841
Liabilities							
Amounts due to central banks	2.58%	1,256	—	1,256	—	—	—
Amounts due to banks and non-bank financial institutions	2.21%	243,793	—	238,870	4,673	250	—
Amounts due to subsidiaries	3.23%	1,208	502	681	25	—	—
Deposits from customers	1.53%	4,692,843	36,284	3,320,927	988,681	335,113	11,838
Certificates of deposit issued	4.17%	5,957	—	4,514	1,443	—	—
Others	—	103,218	103,218	—	—	—	—
Subordinated bonds issued	4.72%	39,917	—	—	9,917	30,000	—
Total liabilities	1.59%	5,088,192	140,004	3,566,248	1,004,739	365,363	11,838
Asset-liability gap	2.69%	329,711	28,105	(1,541,819)	1,149,936	266,486	427,003

37 RISK MANAGEMENT (CONTINUED)

(c) Interest rate risk (Continued)

Bank

	2005						
	Effective interest rate (note (i))	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one and five years	More than five years
Assets							
Cash and balances with central banks	1.63%	480,136	28,413	451,723	—	—	—
Amounts due from banks and non-bank financial institutions	2.12%	190,018	—	147,711	42,031	276	—
Loans and advances to customers (note (ii))	5.39%	2,393,226	86	1,026,466	1,312,722	38,971	14,981
Investments	2.88%	1,412,114	11,669	139,404	420,657	620,512	219,872
Amount due from subsidiaries	4.31%	1,943	—	1,741	202	—	—
Others	—	106,717	106,717	—	—	—	—
Total assets	4.14%	4,584,154	146,885	1,767,045	1,775,612	659,759	234,853
Liabilities							
Amounts due to central banks	1.89%	21	—	21	—	—	—
Amounts due to banks and non-bank financial institutions	1.78%	164,308	—	135,873	27,814	621	—
Amount due to subsidiaries	3.10%	891	—	891	—	—	—
Deposits from customers	1.39%	4,004,228	40,789	2,768,617	905,529	276,494	12,799
Certificates of deposit issued	2.82%	5,429	—	4,198	527	704	—
Others	—	81,986	81,986	—	—	—	—
Subordinated bonds issued	4.63%	39,907	—	—	9,915	29,992	—
Total liabilities	1.44%	4,296,770	122,775	2,909,600	943,785	307,811	12,799
Asset-liability gap	2.70%	287,384	24,110	(1,142,555)	831,827	351,948	222,054

Notes:

(i) Effective interest rate represents the ratio of interest income/expense to average interest bearing assets/liabilities.

(ii) For loans and advances to customers, the above "Less than three months" category includes overdue amounts (net of allowances for impairment losses) of RMB52,505 million as at 31 December 2006 (2005: RMB68,306 million). Overdue amounts represent loans, of which the whole or part of the principals was overdue, or interest was overdue for more than 90 days but for which principal was not yet due.

37 RISK MANAGEMENT (CONTINUED)

(d) Currency risk

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

The Group has invested the capital injection of USD 22,500 million in debt securities and money market instruments denominated in US dollars. On 12 January 2005, the Bank entered into an agreement with Central SAFE Investments Limited ("Huijin"), pursuant to which the Bank purchased from Huijin an option to sell to Huijin a maximum of USD 22,500 million in exchange for Renminbi at a pre-determined exchange rate of USD 1 to RMB8.2769. The option is exercisable in 2007 in twelve equal monthly instalments. The Group will pay a total option premium of RMB5,587 million to Huijin in twelve equal monthly instalments in 2007.

The option was purchased to hedge currency risk arising from the separate fund mentioned above. This option is qualified as a fair value hedge in accordance with IFRS. The change in the fair value of the option and the change in the fair value of the assets in the separate fund due to foreign exchange fluctuations are recognised as a net foreign exchange gain or loss.

The Group values the option using the Garman Kohlhagen option model, which is commonly used by market participants to value currency options. The parameters used for the valuation include relevant market interest rates of RMB and USD, the spot exchange rates of RMB against USD from the PBOC, and the foreign exchange volatility, which is based on that of non-deliverable forwards of RMB against USD, adjusted for the fact that the PRC foreign exchange market is regulated.

The fair value of the option as at 31 December 2006 was approximately RMB12,058 million (2005: RMB9,545 million), which is included in other assets (Note 24). The premium payable in respect of the option is stated at its discounted value of approximately RMB5,496 million (2005: RMB5,348 million) as at 31 December 2006 and is included under other liabilities and provisions (Note 27).

The change in the fair value of the option recognised as net foreign exchange gain for the year ended 31 December 2006 was approximately RMB2,365 million (2005: RMB4,197 million).

On 5 December 2006, the Bank entered into a USD/RMB foreign exchange swap with the PBOC pursuant to which the Bank will sell USD 8,969 million and buy RMB at a pre-determined forward rate on 7 December 2007 to cover the currency risk arising from the corresponding assets denominated in US dollars.

The change in fair value of the foreign exchange swap recognised as net foreign exchange gain for the year ended 31 December 2006 was approximately RMB58 million (2005: net loss of RMB46 million).

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

37 RISK MANAGEMENT (CONTINUED)

(d) Currency risk (Continued)

Group

The Group's total equity is mainly denominated in RMB, which is its functional currency. The currency exposures of the Group's assets and liabilities at the balance sheet date were as follows:

	2006			
	RMB	USD	Others	Total
Assets				
Cash and balances with central banks	530,964	5,930	2,779	539,673
Amounts due from banks and non-bank financial institutions	55,500	20,591	6,094	82,185
Loans and advances to customers	2,647,561	84,622	63,793	2,795,976
Investments	1,583,878	306,685	18,829	1,909,392
Others	110,089	7,133	4,063	121,285
Total assets	4,927,992	424,961	95,558	5,448,511
Liabilities				
Amounts due to central banks	21	—	1,235	1,256
Amounts due to banks and non-bank financial institutions	198,679	40,247	5,042	243,968
Deposits from customers	4,529,300	126,440	65,516	4,721,256
Certificates of deposit issued	—	1,577	5,380	6,957
Others	98,548	5,185	1,220	104,953
Subordinated bonds issued	39,917	—	—	39,917
Total liabilities	4,866,465	173,449	78,393	5,118,307
Net position	61,527	251,512	17,165	330,204
Notional amount of hedging currency option and foreign exchange swap contracts	245,621	(245,621)	—	—
Off-balance sheet credit commitments	544,886	86,926	29,463	661,275

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

37 RISK MANAGEMENT (CONTINUED)

(d) Currency risk (Continued)

Group

	2005			
	RMB	USD	Others	Total
Assets				
Cash and balances with central banks	473,590	4,260	2,286	480,136
Amounts due from banks and non-bank financial institutions	32,438	127,205	30,465	190,108
Loans and advances to customers	2,278,785	82,727	33,801	2,395,313
Investments	1,183,101	214,555	16,215	1,413,871
Others	99,871	4,970	1,473	106,314
Total assets	4,067,785	433,717	84,240	4,585,742
Liabilities				
Amounts due to central banks	21	—	—	21
Amounts due to banks and non-bank financial institutions	118,870	40,288	5,366	164,524
Deposits from customers	3,856,445	106,308	43,293	4,006,046
Certificates of deposit issued	—	377	5,052	5,429
Others	77,269	4,298	571	82,138
Subordinated bonds issued	39,907	—	—	39,907
Total liabilities	4,092,512	151,271	54,282	4,298,065
Net position	(24,727)	282,446	29,958	287,677
Notional amount of hedging currency option and foreign exchange swap contracts	253,963	(253,963)	—	—
Off-balance sheet credit commitments	460,151	60,086	21,909	542,146

37 RISK MANAGEMENT (CONTINUED)

(d) Currency risk (Continued)

Bank

The currency exposures of the Bank's assets and liabilities at the balance sheet date were as follows:

	2006			
	RMB	USD	Others	Total
Assets				
Cash and balances with central banks	530,930	5,926	2,700	539,556
Amounts due from banks and non-bank financial institutions	55,402	14,841	5,783	76,026
Loans and advances to customers	2,647,560	83,203	36,469	2,767,232
Investments	1,582,919	302,798	18,270	1,903,987
Amounts due from subsidiaries	—	10,528	1,519	12,047
Others	110,271	6,927	1,857	119,055
Total assets	4,927,082	424,223	66,598	5,417,903
Liabilities				
Amounts due to central banks	21	—	1,235	1,256
Amounts due to banks and non-bank financial institutions	198,679	40,192	4,922	243,793
Amounts due to subsidiaries	258	1	949	1,208
Deposits from customers	4,528,787	118,121	45,935	4,692,843
Certificates of deposit issued	—	1,577	4,380	5,957
Others	98,522	4,154	542	103,218
Subordinated bonds issued	39,917	—	—	39,917
Total liabilities	4,866,184	164,045	57,963	5,088,192
Net position	60,898	260,178	8,635	329,711
Notional amount of hedging currency option and foreign exchange swap contracts	245,621	(245,621)	—	—
Off-balance sheet credit commitments	544,886	86,620	25,597	657,103

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

37 RISK MANAGEMENT (CONTINUED)

(d) Currency risk (Continued)

Bank

	2005			
	RMB	USD	Others	Total
Assets				
Cash and balances with central banks	473,590	4,260	2,286	480,136
Amounts due from banks and non-bank financial institutions	32,432	127,190	30,396	190,018
Loans and advances to customers	2,278,785	81,943	32,498	2,393,226
Investments	1,182,978	213,449	15,687	1,412,114
Amounts due from subsidiaries	—	1,131	812	1,943
Others	100,053	4,933	1,731	106,717
Total assets	4,067,838	432,906	83,410	4,584,154
Liabilities				
Amounts due to central banks	21	—	—	21
Amounts due to banks and non-bank financial institutions	118,870	40,072	5,366	164,308
Amounts due to subsidiaries	269	9	613	891
Deposits from customers	3,856,323	105,704	42,201	4,004,228
Certificates of deposit issued	—	377	5,052	5,429
Others	77,252	4,298	436	81,986
Subordinated bonds issued	39,907	—	—	39,907
Total liabilities	4,092,642	150,460	53,668	4,296,770
Net position	(24,804)	282,446	29,742	287,384
Notional amount of hedging currency option and foreign exchange swap contracts	253,963	(253,963)	—	—
Off-balance sheet credit commitments	460,151	59,910	20,961	541,022

37 RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due. It is caused by mismatches in the amount and maturity of assets and liabilities. In line with liquidity policies, the Group closely monitors the future cash flows and maintains suitable levels of readily marketable assets.

At the Group level, liquidity is managed and coordinated through the ALM. The ALM is responsible for formulation of the liquidity policies in accordance with regulatory requirements and prudential principles. Such policies include:

— optimising the Group's asset and liability structure with the principle of matching the maturities of fund in-flows and out-flows;

— maintenance of strong balance sheet liquidity ratios;

— projecting cash flows and assessing the level of liquid assets accordingly; and

— maintenance of sufficient liquid funds through internal transfer pricing.

A substantial portion of the Group's assets are funded by customer deposits. These customer deposits, which have been growing in recent years, are widely diversified in type and maturity and represent a stable source of funds.

In terms of measuring liquidity risk, the Group principally uses liquidity gap analysis, although currently such analysis is restricted to cash flow projections of within one year. Different scenarios are then applied to assess the impact of liquidity risk.

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

37 RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk (Continued)

Group

The following tables provide an analysis of the assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the balance sheet date.

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

37 RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk (Continued)

Group

	2005						
	Overdue/ repayable on demand	Less than three months	Between three months and one year	Between one and five years	More than five years	Undated	Total
Assets							
Cash and balances with central banks (note (i))	136,808	57,370	—	—	—	285,958	480,136
Amounts due from banks and non-bank financial institutions	11,379	136,422	42,031	276	—	—	190,108
Loans and advances to customers (note (ii))	71,195	332,389	783,035	657,218	551,476	—	2,395,313
Investments							
— Receivables	—	—	30,482	349,457	63,790	—	443,729
— Held-to-maturity debt securities	—	67,346	135,556	315,950	125,126	—	643,978
— Available-for-sale investments	—	17,932	138,310	76,353	79,464	11,672	323,731
— Debt securities at fair value through profit or loss (note (iii))	—	—	828	977	628	—	2,433
Others	2,948	10,161	8,295	12,149	508	72,253	106,314
Total assets	222,330	621,620	1,138,537	1,412,380	820,992	369,883	4,585,742
Liabilities							
Amounts due to central banks	21	—	—	—	—	—	21
Amounts due to banks and non-bank financial institutions	85,860	50,229	27,814	621	—	—	164,524
Deposits from customers	2,226,495	583,304	904,671	277,301	14,275	—	4,006,046
Certificates of deposit issued	—	420	2,018	2,991	—	—	5,429
Others	28,204	16,474	21,063	11,697	4,700	—	82,138
Subordinated bonds issued	—	—	—	—	39,907	—	39,907
Total liabilities	2,340,580	650,427	955,566	292,610	58,882	—	4,298,065
Long/(short) position	(2,118,250)	(28,807)	182,971	1,119,770	762,110	369,883	287,677

Notes:

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

(ii) For loans and advances to customers, overdue amount included in the above "overdue/repayable on demand" category represents loans of which the whole or part of the principal was overdue, or interest was overdue for more than 90 days but for which the principal was not yet due. The overdue amount is stated net of appropriate allowances for impairment losses.

(iii) For debt securities held for trading purposes, their remaining terms to maturities do not represent the Group's intended holding periods.

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37 RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk (Continued)

Bank

The following tables provide an analysis of the assets and liabilities of the Bank into relevant maturity groupings based on the remaining periods to repayment at the balance sheet date.

	2006						
	Overdue/ repayable on demand	Less than three months	Between three months and one year	Between one and five years	More than five years	Undated	Total
Assets							
Cash and balances with central banks (note (i))	133,841	—	—	—	—	405,715	539,556
Amounts due from banks and non-bank financial institutions	12,639	58,269	4,879	239	—	—	76,026
Loans and advances to customers (note (ii))	58,167	347,590	836,655	828,575	696,245	—	2,767,232
Investments							
— Receivables	—	—	128,211	341,744	76,402	—	546,357
— Held-to-maturity debt securities	—	145,020	254,912	384,782	253,561	—	1,038,275
— Available-for-sale investments	—	58,853	111,871	48,465	87,562	9,150	315,901
— Debt securities at fair value through profit or loss (note (iii))	—	556	679	1,416	803	—	3,454
Amounts due from subsidiaries	132	634	—	778	703	9,800	12,047
Others	1,763	17,154	18,942	3,178	675	77,343	119,055
Total assets	206,542	628,076	1,356,149	1,609,177	1,115,951	502,008	5,417,903
Liabilities							
Amounts due to central banks	21	1,235	—	—	—	—	1,256
Amounts due to banks and non-bank financial institutions	203,785	35,085	4,673	250	—	—	243,793
Amounts due to subsidiaries	529	654	25	—	—	—	1,208
Deposits from customers	2,634,713	710,606	997,298	336,909	13,317	—	4,692,843
Certificates of deposit issued	—	—	1,806	4,151	—	—	5,957
Others	44,320	20,812	25,430	8,394	4,237	25	103,218
Subordinated bonds issued	—	—	—	—	39,917	—	39,917
Total liabilities	2,883,368	768,392	1,029,232	349,704	57,471	25	5,088,192
Long/(short) position	(2,676,826)	(140,316)	326,917	1,259,473	1,058,480	501,983	329,711

37 RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk (Continued)

Bank

	2005						
	Overdue/ repayable on demand	Less than three months	Between three months and one year	Between one and five years	More than five years	Undated	Total
Assets							
Cash and balances with central banks (note (i))	136,808	57,370	—	—	—	285,958	480,136
Amounts due from banks and non-bank financial institutions	11,344	136,367	42,031	276	—	—	190,018
Loans and advances to customers (note (ii))	70,978	331,656	782,781	656,733	551,078	—	2,393,226
Investments							
— Receivables	—	—	30,482	349,457	63,790	—	443,729
— Held-to-maturity debt securities	—	67,292	135,439	315,814	125,126	—	643,671
— Available-for-sale investments	—	17,797	137,787	75,766	79,262	11,669	322,281
— Debt securities at fair value through profit or loss (note (iii))	—	—	828	977	628	—	2,433
Amount due from subsidiaries	36	977	410	520	—	—	1,943
Others	2,789	10,161	8,295	12,149	508	72,815	106,717
Total assets	221,955	621,620	1,138,053	1,411,692	820,392	370,442	4,584,154
Liabilities							
Amounts due to central banks	21	—	—	—	—	—	21
Amounts due to banks and non-bank financial institutions	85,860	50,013	27,814	621	—	—	164,308
Amount due to subsidiaries	570	321	—	—	—	—	891
Deposits from customers	2,226,113	582,081	904,581	277,178	14,275	—	4,004,228
Certificates of deposit issued	—	420	2,018	2,991	—	—	5,429
Others	28,081	16,449	21,059	11,697	4,700	—	81,986
Subordinated bonds issued	—	—	—	—	39,907	—	39,907
Total liabilities	2,340,645	649,284	955,472	292,487	58,882	—	4,296,770
Long/(short) position	(2,118,690)	(27,664)	182,581	1,119,205	761,510	370,442	287,384

Notes:

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

(ii) For loans and advances to customers, overdue amount included in the above "overdue/repayable on demand" category represents loans of which the whole or part of the principal was overdue, or interest was overdue for more than 90 days but for which the principal was not yet due. The overdue amount is stated net of appropriate allowances for impairment losses.

(iii) For debt securities held for trading purposes, their remaining terms to maturities do not represent the Group's intended holding periods.

37 RISK MANAGEMENT (CONTINUED)

(f) Use of derivatives

Derivatives include forward, swap and option transactions undertaken by the Group in the foreign exchange and interest rate markets. The Group, through the operations of its branch network, acts as an intermediary between a wide range of customers, and structures deals to offer customised risk management products to suit individual customer needs. These positions are actively managed through entering offsetting deals with external parties to ensure that the Group's net exposures are within acceptable risk levels. No significant proprietary positions are maintained by the Group at the balance sheet date. The Group also uses derivatives (principally foreign exchange options and swaps, and interest rate swaps) in the management of its own asset and liability portfolios and structural positions.

The primary derivatives utilised by the Group are shown in the following table.

Derivatives	Description
Cross-currency, foreign exchange and interest rate swaps:	Cross-currency, foreign exchange and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) whereas cross-currency will result in an economic exchange of both currencies and interest rates.
Foreign currency and interest rate options:	Foreign currency and interest rate options are contractual agreements under which the seller grants the purchaser the right, but not the obligation, either to buy or sell at or by a predetermined date or during a predetermined period, a specific amount of a foreign currency or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between the Group and a customer over the counter.
Currency forwards:	Currency forwards represent commitments to purchase or sell foreign exchanges at a certain date in the future.

37 RISK MANAGEMENT (CONTINUED)

(f) Use of derivatives (Continued)

The following tables provide an analysis of the notional amounts of derivatives of the Group by relevant maturity groupings based on the remaining periods to settlement and the corresponding fair values at the balance sheet date.

The notional amounts of the derivatives indicate the volume of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

Group

	2006						
	Notional amounts with remaining life of					Fair values	
	less than three months	between three months and one year	between one year and five years	more than five years	Total	Assets	Liabilities
Interest rate derivatives							
Interest rate swaps	12,943	36,846	37,437	13,454	100,680	882	793
Cross-currency swaps	6,909	427	1,551	5,704	14,591	225	247
	19,852	37,273	38,988	19,158	115,271	1,107	1,040
Currency derivatives							
Spot	13,344	—	—	—	13,344	8	4
Forwards	47,574	104,509	1,382	—	153,465	1,074	1,381
Foreign exchange swaps	24,077	101,978	943	—	126,998	251	276
Currency options purchased	44,359	131,711	—	—	176,070	12,074	—
Currency options written	1,801	781	—	—	2,582	—	14
	131,155	338,979	2,325	—	472,459	13,407	1,675
Total						14,514	2,715
						(Note 24)	(Note 27)

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37 RISK MANAGEMENT (CONTINUED)

(f) Use of derivatives (Continued)

Group

	2005						
	Notional amounts with remaining life of					Fair values	
	less than three months	between three months and one year	between one year and five years	more than five years	Total	Assets	Liabilities
Interest rate derivatives							
Interest rate swaps	21,254	16,536	33,464	18,440	89,694	1,193	1,199
Cross-currency swaps	512	3,684	1,892	288	6,376	662	695
Interest futures	—	104	—	—	104	—	—
Interest rate options written	1,372	—	—	—	1,372	—	12
	23,138	20,324	35,356	18,728	97,546	1,855	1,906
Currency derivatives							
Spot	2,943	—	—	—	2,943	—	—
Forwards	44,235	32,339	1,904	—	78,478	483	394
Foreign exchange swaps	30,884	79,710	—	—	110,594	249	178
Currency options purchased	101	155	181,580	—	181,836	9,550	3
Currency options written	269	2,448	—	—	2,717	9	9
	78,432	114,652	183,484	—	376,568	10,291	584
Total						12,146	2,490
						(Note 24)	(Note 27)

37 RISK MANAGEMENT (CONTINUED)

(f) Use of derivatives (Continued)

Bank

	2006						
	Notional amounts with remaining life of					Fair values	
	less than three months	between three months and one year	between one year and five years	more than five years	Total	Assets	Liabilities
Interest rate derivatives							
Interest rate swaps	12,889	36,783	36,423	13,313	99,408	863	788
Cross-currency swaps	6,909	427	1,551	5,704	14,591	225	247
	19,798	37,210	37,974	19,017	113,999	1,088	1,035
Currency derivatives							
Spot	13,344	—	—	—	13,344	8	4
Forwards	34,895	104,509	1,382	—	140,786	865	1,191
Foreign exchange swaps	24,077	101,978	943	—	126,998	251	276
Currency options purchased	44,111	131,711	—	—	175,822	12,074	—
Currency options written	1,553	781	—	—	2,334	—	16
	117,980	338,979	2,325	—	459,284	13,198	1,487
Total						14,286	2,522
						(Note 24)	(Note 27)

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

37 RISK MANAGEMENT (CONTINUED)

(f) Use of derivatives (Continued)

Bank

	2005						
	Notional amounts with remaining life of					Fair values	
	less than three months	between three months and one year	between one year and five years	more than five years	Total	Assets	Liabilities
Interest rate derivatives							
Interest rate swaps	21,254	16,536	33,464	18,440	89,694	1,193	1,199
Cross-currency swaps	512	3,684	1,892	288	6,376	662	695
Interest futures	—	104	—	—	104	—	—
Interest rate options written	1,372	—	—	—	1,372	—	12
	23,138	20,324	35,356	18,728	97,546	1,855	1,906
Currency derivatives							
Spot	2,943	—	—	—	2,943	—	—
Forwards	44,235	32,339	1,904	—	78,478	483	394
Foreign exchange swaps	30,884	79,710	—	—	110,594	249	178
Currency options purchased	101	155	181,580	—	181,836	9,550	3
Currency options written	269	2,448	—	—	2,717	9	9
	78,432	114,652	183,484	—	376,568	10,291	584
Total						12,146	2,490
						(Note 24)	(Note 27)

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

Replacement costs

	Group		Bank	
	2006	2005	**2006**	2005
Interest rate derivatives	**1,107**	1,855	**1,088**	1,855
Currency derivatives, net of option premium payable	**7,911**	4,943	**7,702**	4,943
	9,018	6,798	**8,790**	6,798

Replacement cost represents the cost of replacing all contracts which have a positive value when marked to market. Replacement cost is a close approximation of the credit risk for these derivative contracts as at the balance sheet date.

37 RISK MANAGEMENT (CONTINUED)

(f) Use of derivatives (Continued)

Credit risk weighted amounts

	Group		Bank	
	2006	2005	**2006**	2005
Interest rate derivatives	**2,075**	2,458	**2,049**	2,458
Currency derivatives	**3,506**	1,914	**3,165**	1,914
	5,581	4,372	**5,214**	4,372

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

In accordance with the rules set out by the CBRC, the credit risk weight assigned to the PBOC and Huijin, which is a government agency, is zero. Therefore, the credit risk weighted amount of the foreign currency swap with the PBOC and currency option purchased from Huijin (Note 37(d)) is zero.

(g) Operational risk

Operational risk represents the risk of loss due to deficiencies and failure of internal processes, personnel and information system, or other external events.

The Group manages this risk through a control-based environment by establishing a framework of policies and procedures in order to identify, assess, control, manage and report risks. The framework covers all business functions ranging from finance, credit, accounting, settlement, savings, treasury, intermediary business, computer applications and management, special assets resolution and legal affairs. This has allowed the Group to comprehensively identify and address the operational risk inherent in all key products, activities, processes and systems. Key controls include:

— authorisation limits for branches and functional departments are delegated after consideration of their respective business scope, risk management capabilities and credit approval procedures. Such authorisations are revised on a timely basis to reflect changes in market conditions, business development and risk management needs;

— the use of centralised authorisation, consistent operational policies and strict disciplinary measures to establish sound accountability;

— systems and procedures to identify, monitor and report on the major risks: credit, market, liquidity and operational;

— promotion of an overall risk management culture throughout the organisation by building a team of managers with systematic training and having an appraisal system in place, to raise the overall risk awareness among the Group's employees;

— a dedicated anti-money laundering division under the Compliance Department responsible for overseeing that cash management and account management are in compliance with the relevant regulations, and for improving training on anti-money laundering to ensure our employees are well-equipped with the necessary knowledge and basic skills to combat money laundering;

37 RISK MANAGEMENT (CONTINUED)

(g) Operational risk (Continued)

— the review and approval by senior management of comprehensive financial and operating plans which are prepared by branches;

— the assessment of individual branches' financial performance against the comprehensive financial and operating plan; and

— the maintenance of contingent facilities (including backup systems and disaster recovery schemes) to support all major operations, especially back office operations, in the event of an unforeseen interruption. Insurance cover is arranged to mitigate potential losses associated with certain operational events.

(h) Fair value

(i) Financial assets

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

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

Amounts due from central banks, banks and non-bank financial institutions are mainly priced at market interest rates and mature within one year. Accordingly, the carrying values approximate the fair values.

Loans and advances to customers

Loans and advances to customers are mostly priced at floating rates close to the PBOC rates. Accordingly, their carrying values approximate the fair values.

Investments

Available-for-sale investments and debt securities at fair value through profit or loss are stated at fair value in the financial statements. The following table shows the carrying values and the fair values of receivables and held-to-maturity debt securities which are not presented on the balance sheet at their fair values.

37 RISK MANAGEMENT (CONTINUED)

(h) Fair value (Continued)

(i) Financial assets (Continued)

	Group			
	Carrying values		Fair values	
	2006	2005	**2006**	2005
Receivables	**546,357**	443,729	**545,538**	444,056
Held-to-maturity debt securities	**1,038,713**	643,978	**1,045,201**	653,514

	Bank			
	Carrying values		Fair values	
	2006	2005	**2006**	2005
Receivables	**546,357**	443,729	**545,538**	444,056
Held-to-maturity debt securities	**1,038,275**	643,671	**1,044,763**	653,207

(ii) Financial liabilities

The Group's financial liabilities mainly include amounts due to banks and non-bank financial institutions, deposits from customers, certificates of deposit issued and subordinated bonds issued. The carrying values of financial liabilities approximated their fair values at the balance sheet date, except that the fair value of subordinated bonds issued as at 31 December 2006 was RMB41,100 million (2005: RMB41,431 million), which was higher than their carrying value of RMB39,917 million (2005: RMB39,907 million).

38 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

In determining the carrying amounts of some assets and liabilities, the Group makes estimates of the effects of uncertain future events on those assets and liabilities at the balance sheet date. These estimates involve assumptions about such items as risk adjustment to cash flows or discount rates used and future changes in prices affecting other costs. The Group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies.

(a) Impairment losses on loans and advances

Loan portfolios are reviewed periodically to assess whether impairment losses exist and if they exist, the amounts of impairment losses. Objective evidence for impairment includes observable data indicating that there is a measurable decrease in the estimated future cash flows identified with an individual loan. It also includes observable data indicating adverse changes in the repayment status of borrowers in the loan portfolio or national or local economic conditions that correlate with defaults on the loans in the portfolio. The impairment loss for a loan that is individually assessed for impairment is the decrease in the estimated discounted future cash flow of that loan. When loans and advances are collectively assessed for impairment, the estimate is based on historical loss experience for assets with credit risk characteristics similar to the loans and advances. Historical loss experience is adjusted on the basis of the relevant observable data that reflect current economic conditions. Management review the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss.

(b) Impairment of available-for-sale equity investments

For available-for-sale equity investments, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. Judgement is required when determining whether a decline in fair value has been significant or prolonged. In making this judgement, the historical data on market volatility as well as on the share price of the specific equity investment are taken into account. The Group also takes into account other factors, such as industry and sector performance, and financial information regarding the investee.

(c) Fair value of financial instruments

For a number of financial instruments, no quoted prices from an active market exist. The fair values for these financial instruments are established by using valuation techniques. These techniques include using recent arm's length market transactions, reference to the current fair value of similar instruments and discounted cash flow analysis and option pricing models. The Group has established a process to ensure that valuation techniques are constructed by qualified personnel and are validated and reviewed by independent personnel. Valuation techniques are certified before implementation and are calibrated to ensure that outputs reflect actual market conditions. Valuation models established by the Group make the maximum use of market inputs and rely as little as possible on Group-specific data. However, it should be noted that some inputs, such as credit and counterparty risk, and risk correlations, require management estimates. Management estimates and assumptions are reviewed periodically and are adjusted if necessary.

(d) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity investments if the Group has the intention and ability to hold them until maturity. In evaluating whether the requirements to classify a financial asset as held-to-maturity are met, management make significant judgements. Failure in correctly assessing the Group's intention and ability to hold specific investments until maturity may result in reclassification of the whole portfolio as available-for-sale.

(e) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

39 MATERIAL RELATED PARTY TRANSACTIONS

(a) Huijin and companies under Huijin

(i) *Huijin*

Huijin directly and indirectly owned 70.69% of the issued share capital of the Bank as at 31 December 2006 and 2005. Huijin was incorporated on 16 December 2003 as a wholly state-owned investment company with the approval of the State Council. Huijin is a government agency, and was established to hold certain equity investments on behalf of the State Council. Huijin represents the PRC government in exercising its investors' rights and obligations in certain financial institutions such as the Bank. As part of the Restructuring, the Group carried out the following transactions with Huijin:

— Huijin has undertaken to assume all the debts, obligations and liabilities relating to the business acquired by the Bank, which arose for any reason prior to 31 December 2003 and were not succeeded by the Bank at Restructuring; and

— Huijin entered into a foreign exchange option agreement with the Bank on 12 January 2005 (Note 37(d)). The purpose of the option is to hedge against the Bank's currency risk arising from capital contributed by Huijin of USD22,500 million.

Transactions during the year and the corresponding balances outstanding at the balance sheet date with Huijin are as follows:

	Group and Bank	
	2006	2005
Interest expense arising from:		
Deposits from customers	**1,120**	195
Liabilities:		
Deposits from customers	**24,616**	18,334
Dividend payable	**—**	2,567
Interest payable	**63**	27
Total	**24,679**	20,928

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39 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Huijin and companies under Huijin (Continued)

(ii) *Jianyin*

As at 31 December 2006 and 2005 Jianyin directly owned 9.21% of the issued share capital of the Bank. Its principal activities include the holding of equity investments, asset management and other business activities as approved by the relevant PRC government authorities.

Jianyin and its subsidiaries entered into certain services and operating lease agreements with the Group subsequent to the Restructuring.

Transactions during the year and the corresponding balances outstanding at the balance sheet date with Jianyin and its subsidiaries are as follows:

	Group and Bank	
	2006	2005
Income or expenses:		
Interest income	**26**	—
Interest expenses	**170**	6
Other income (note (ii-1))	**133**	53
Operating expenses (note (ii-2))	**646**	200
Assets or liabilities:		
Loans and advances to customers	**46**	—
Other assets (note (ii-3))	**275**	20
Amounts due to banks and non-bank financial institutions	**13,706**	233
Other liabilities and provisions (Note 27)	**5,320**	5,211
Deposits from customers	**1,130**	462
Dividend payable	**—**	348

Notes:

(ii-1) This includes custody management fee income earned by the Group for managing assets on behalf of Jianyin and its subsidiaries and income from disposal of property and equipment to Jianyin and its subsidiaries.

(ii-2) This mainly represents rental expenses paid by the Group for leasing assets, including properties and motor vehicles, owned by Jianyin and its subsidiaries, and fees for supporting services provided by Jianyin and its subsidiaries.

(ii-3) This mainly represents payments for the acquisition of property and equipment by the Group on behalf of Jianyin and its subsidiaries.

(ii-4) Amounts due from/to Jianyin and its subsidiaries are unsecured and are repayable under normal commercial terms. No allowance for impairment losses was made in respect of amounts due from Jianyin and its subsidiaries.

During 2006, the Group acquired fixed assets with net amount RMB120 million (2005: Nil) from Jianyin and its subsidiaries.

39 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Huijin and companies under Huijin (Continued)

(iii) *Other companies under Huijin*

Huijin also has controlling equity interests in certain other banks and non-bank financial institutions in Mainland China. The Group enters into banking transactions with these companies in the normal course of its banking business at market rates. These include sale and purchase of debt securities, conducting money market transactions and inter-bank clearing.

Transactions during the year and corresponding balances outstanding at the balance sheet date with these companies are as follows:

	Group and Bank	
	2006	2005
Interest income arising from:		
Debt securities issued by these banks and non-bank financial institutions	**620**	600
Amounts due from these banks and non-bank financial institutions	**38**	54
Loans and advances to customers	**3**	—
	661	654
Interest expense arising from:		
Amounts due to these banks and non-bank financial institutions	**141**	91
Assets or liabilities:		
Debt securities issued by these banks and non-bank financial institutions	**15,974**	31,191
Amounts due from these banks and non-bank financial institutions	**3,374**	4,374
Loans and advances to customers	**240**	—
	19,588	35,565
Amounts due to these banks and non-bank financial institutions	**16,934**	5,726

The Group has issued subordinated bonds with a nominal value of RMB40,000 million. These bonds are bearer bonds and are traded in the secondary market. Accordingly, the Group has no information in respect of the amount of the Group's bonds held by these banks and non-bank financial institutions at the balance sheet date.

39 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Transactions with other PRC state-owned entities

The Group operates in an economic regime currently predominated by entities directly or indirectly owned by the PRC government through its government authorities, agencies, affiliations and other organisations ("state-owned entities").

Transactions with other state-owned entities include but are not limited to the following:

— lending and deposit taking;

— taking and placing of inter-bank balances;

— entrusted lending and other custody services;

— insurance and securities agency, and other intermediary services;

— sale, purchase, underwriting and redemption of bonds issued by other state-owned entities;

— purchase, sale and leases of property and other assets; and

— rendering and receiving of utilities and other services.

These transactions are conducted in the ordinary course of the Group's banking business on terms similar to those that would have been entered into with non-state-owned entities. The Group has also established its pricing strategy and approval processes for major products and services, such as loans, deposits and commission income. Such pricing strategy and approval processes do not depend on whether the customers are state-owned entities or not. Having due regard to the substance of the relationships, the Bank is of the opinion that none of these transactions are material related party transactions that require separate disclosure.

39 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including Directors, Supervisors and Executive Officers.

The compensation of Directors and Supervisors is disclosed in Note 10. The Executive Officers' annual compensation before individual income tax during the year is as follows:

	Group and Bank					
	2006					
	Salaries RMB'000	Discretionary bonus RMB'000	Sub-total RMB'000	Contributions to defined contribution retirement schemes RMB'000	(note(i)) Other benefits in kind RMB'000	Total RMB'000
Vice president						
Xin Shusen	426	585	1,011	19	208	1,238
Chen Zuofu	426	581	1,007	19	204	1,230
Fan Yifei	426	634	1,060	19	241	1,320
Chief financial officer						
Pang Xiusheng (appointed in April 2006)	253	338	591	13	131	735
Chief risk officer						
Zhu Xiaohuang (appointed in April 2006)	253	346	599	13	105	717
Chief auditor						
Yu Yongshun	380	470	850	19	145	1,014
Secretary to the board of directors, controller of investment and wealth management banking						
Zhang Long (note (ii))	221	282	503	11	149	663
Controller of wholesale banking						
Gu Jingpu (appointed in May 2006)	221	289	510	11	110	631
Controller of retailing banking						
Du Yajun (appointed in May 2006)	221	289	510	—	87	597
Company secretary						
Ha Yiu Fai	1,685	657	2,342	101	30	2,473
Qualified accountant						
Yuen Yiu Leung	1,130	770	1,900	90	16	2,006
	5,642	5,241	10,883	315	1,426	12,624
Resigned in 2006						
Secretary to the board of directors						
Xuan Changneng	285	349	634	16	149	799
	5,927	5,590	11,517	331	1,575	13,423

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39 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Key management personnel (Continued)

	Group and Bank					
	2005					
	Salaries RMB'000	Discretionary bonus RMB'000	Sub-total RMB'000	Contributions to defined contribution retirement schemes RMB'000	(note(i)) Other benefit in kind RMB'000	Total RMB'000
Vice president						
Luo Zhefu	410	482	892	16	60	968
Xin Shusen (appointed in July 2005)	410	487	897	16	69	982
Chen Zuofu (appointed in July 2005)	398	482	880	16	69	965
Fan Yifei (appointed in July 2005)	398	483	881	16	107	1,004
Chief auditor						
Yu Yongshun (appointed in July 2005)	130	164	294	7	41	342
Secretary to the board of directors						
Xuan Changneng	325	348	673	16	83	772
Company secretary						
Ha Yiu Fai (appointed in August 2005)	1,716	1,001	2,717	94	859	3,670
Qualified accountant						
Yuen Yiu Leung (appointed in August 2005)	1,053	474	1,527	67	19	1,613
	4,840	3,921	8,761	248	1,307	10,316

Note:

(i) Other benefits in kind included the Bank's contributions to medical fund, housing provident fund and other social insurances, which are payable to labour and securities authorities based on the lower of certain percentages of the salaries or the prescribed upper limits as required by the relevant regulations issued by the government authorities. Other benefits also included the Bank's contribution to its own corporate annuity plan, which was set up in 2006 in accordance with the national annuity plan and relevant policies, and supplementary medical insurance.

(ii) Mr Zhang Long was appointed as the controller of investment and wealth management banking in May 2006 and appointed as the secretary to the board of directors in December 2006. His appointment as the secretary to the board of directors is subject to the approval of CBRC.

39 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Contributions to defined contribution retirement schemes

The Group participates in various defined contribution retirement schemes organised by municipal and provincial governments for its employees in Mainland China. For its employees outside Mainland China, the Group participates in various defined contribution retirement schemes at funding rates determined in accordance with the local practices and regulations. The details of the Group's defined contribution retirement schemes are described in Notes 27(a) and 28(a).

40 EVENTS AFTER THE BALANCE SHEET DATE

(a) Final dividend

After the balance sheet date, the Directors proposed a final dividend. Further details are disclosed in Note 31(b).

(b) Tax reform in 2008

On 16 March 2007, the Tenth National People's Congress plenary session passed the unified enterprise income tax law. Pursuant to the unified income tax law, the income tax rate that is applicable to the Bank and its subsidiaries in the Mainland China will be reduced from 33% to 25% effective from 1 January 2008. The Group did not adopt the reduced income tax rate when preparing its financial statements for the year ended 31 December 2006 as the above change in income tax law constitutes a non-adjusting post balance sheet event. The Group is in the process of collecting information to assess the impact on the financial position as a result of the above changes in the enterprise income tax law.

(c) Credit Card Cooperation with Bank of America Corporation ("BAC")

On 13 April 2007, the board of directors has approved the memorandum of understanding between the Bank and BAC for credit card cooperation. According to the mutual agreement between both parties, the Bank will establish an independent and centralised credit card business unit. Upon the satisfaction of certain conditions (including obtaining approvals from all relevant government units), the credit card business unit will be converted into a Sino-foreign credit card joint venture incorporated in the PRC. The Bank will hold an interest of 63% in the joint venture and BAC will hold an interest of 37%. Both parties' interest will be subject to a lockup period of no less than three years.

The above proposed cooperation is subject to shareholders' approval at the forthcoming annual general meeting to be held on 13 June 2007.

41 ULTIMATE PARENT

The Group is owned and controlled by the PRC government. The majority of the Group's shares are held by Huijin, a government agency.

42 COMPARATIVE FIGURES

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