

# **China Construction Bank Corporation**

ENGLISH TRANSLATION OF THE FINANCIAL STATEMENTS  
FOR THE YEAR FROM 1 JANUARY 2006 TO 31 DECEMBER 2006

IF THERE IS ANY CONFLICT OF MEANING BETWEEN THE CHINESE AND  
ENGLISH VERSIONS, THE CHINESE VERSION WILL PREVAIL

## **AUDITORS' REPORT**

KPMG-A(2007)AR No.0239

All Shareholders of China Construction Bank Corporation:

We have audited the accompanying financial statements of China Construction Bank Corporation (“the Bank”) on pages 3 to 101, which comprise the balance sheet as at 31 December 2006, the income statement, statement of changes in shareholders' equity and cash flow statement for the year then ended, and notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

The Bank's management is responsible for the preparation of these financial statements in accordance with the Accounting Standards for Business Enterprises and the Accounting Regulations for Financial Enterprises issued by the Ministry of Finance of the People's Republic of China. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with China's Auditing Standards for the Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

## Opinion

In our opinion, the financial statements comply with the requirements of the Accounting Standards for Business Enterprises and the Accounting Regulations for Financial Enterprises issued by the Ministry of Finance of the People's Republic of China and present fairly, in all material respects, the financial position of the Bank as at 31 December 2006, and the results of operations and cash flows of the Bank for the year then ended.

KPMG Huazhen

Certified Public Accountants  
Registered in the People's Republic of China

Song Chenyang

Beijing, The People's Republic of China

Fan Lihong

13 April 2007

*The accompanying financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than the People's Republic of China. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the People's Republic of China.*

China Construction Bank Corporation  
 Balance sheet  
 (Expressed in millions of Renminbi)

	<u>Note</u>	<u>2006</u>	<u>2005</u>
<b>Assets</b>			
Cash		30,104	28,413
Deposits with central banks	5	509,452	394,353
Deposits with banks and non-bank financial institutions	6	17,991	22,641
Placements with banks and non-bank financial institutions	7	25,507	154,794
Balances under resale agreements	8	33,371	71,167
Interest receivable		21,148	17,069
Debt securities	9	1,896,042	1,401,173
Loans and advances to customers	10	2,767,432	2,393,226
Available-for-sale equity investments	11	8,976	11,466
Amounts due from subsidiary	12	9,800	-
Long-term equity investments	13	1,197	1,038
Fixed assets	14	69,070	65,837
Construction in progress		1,733	2,294
Intangible assets		1,272	1,181
Repossessed assets	15	1,408	1,877
Deferred tax assets	16	2,682	420
Other assets	17	21,116	17,400
<b>Total assets</b>		<u>5,418,301</u>	<u>4,584,349</u>

The notes on pages 12 to 101 form part of these financial statements.

China Construction Bank Corporation  
 Balance sheet (continued)  
 (Expressed in millions of Renminbi)

	<u>Note</u>	<u>2006</u>	<u>2005</u>
<b>Liabilities and shareholders' equity</b>			
Liabilities			
Amounts due to central banks		21	21
Deposits from banks and non-bank financial institutions	18	214,636	126,389
Placements from banks and non-bank financial institutions	19	25,906	17,324
Balances under repurchase agreements	20	5,140	21,189
Deposits from customers	21	4,664,099	3,973,181
Inward and outward remittances		28,796	31,344
Certificates of deposit issued		5,957	5,429
Dividends payable		-	3,268
Taxes payable	22	21,890	9,067
Interest payable		34,200	26,132
Deferred tax liabilities	16	25	-
Other liabilities	23	47,605	43,519
Subordinated bonds issued	24	39,917	39,907
		<hr/>	<hr/>
Total liabilities		5,088,192	4,296,770
		-----	-----

The notes on pages 12 to 101 form part of these financial statements.

China Construction Bank Corporation  
 Balance sheet (continued)  
 (Expressed in millions of Renminbi)

	<u>Note</u>	<u>2006</u>	<u>2005</u>
<b>Liabilities and shareholders' equity</b>			
<b>(continued)</b>			
Shareholders' equity			
Share capital	25	224,689	224,689
Capital reserve	26	40,852	41,274
Surplus reserves	27	11,133	6,501
General reserve	28	10,341	10,332
Retained earnings	29	43,094	4,783
<i>Including: - proposed cash dividend</i>	29	<i>20,671</i>	<i>3,370</i>
<i>- proposed appropriation to general reserve</i>	29	<i>20,809</i>	<i>-</i>
Total shareholders' equity		<u>330,109</u>	<u>287,579</u>
<b>Total liabilities and shareholders' equity</b>		<u>5,418,301</u>	<u>4,584,349</u>

These financial statements have been approved by the Board of Directors of the Bank.

**Guo Shuqing**  
 Chairman  
 (Authorised  
 representative)

**Pang Xiusheng**  
 Chief Financial  
 Officer

**Ying Chengkang**  
 Vice General Manager  
 of the Planning &  
 Financial Department

**Lu Kegui**  
 General Manager  
 of the Accounting  
 Department

13 April 2007

The notes on pages 12 to 101 form part of these financial statements.

China Construction Bank Corporation  
Income statement  
*(Expressed in millions of Renminbi)*

	<u>Note</u>	<u>2006</u>	<u>2005</u>
Net interest income			
Interest income		214,148	172,766
Interest expense		(74,759)	(57,002)
Net interest income	30	139,389	115,764
Net fee and commission income			
Fee and commission income	31	14,473	9,252
Fee and commission expense		(1,060)	(806)
Net fee and commission income		13,413	8,446
Net gain arising from dealing securities	32	356	455
Investment income	33	1,647	2,619
Net foreign exchange loss		(6,070)	(1,306)
Net gain from other operations		142	336
Operating expenses			
Operating and administrative expenses	34	(56,735)	(49,522)
Business tax and surcharges		(8,972)	(7,401)
Operating profit		83,170	69,391
Net non-operating income	35	821	483
Profit before provisions for impairment losses		83,991	69,874
Less: Provisions for impairment losses	36	(18,315)	(14,533)
Profit after provisions for impairment losses		65,676	55,341
Less: Income tax	37	(19,354)	(8,238)
Net profit		46,322	47,103

These financial statements have been approved by the Board of Directors of the Bank.

\_\_\_\_\_  
**Guo Shuqing**  
Chairman  
(Authorised  
representative)

\_\_\_\_\_  
**Pang Xiusheng**  
Chief Financial  
Officer

\_\_\_\_\_  
**Ying Chengkang**  
Vice General Manager  
of the Planning &  
Financial Department

\_\_\_\_\_  
**Lu Kegui**  
General Manager  
of the Accounting  
Department

13 April 2007

The notes on pages 12 to 101 form part of these financial statements.

China Construction Bank Corporation  
Statement of changes in shareholders' equity  
(Expressed in millions of Renminbi)

	Note	Share capital	Capital reserve	Surplus reserves	General reserve	Retained earnings	Proposed cash dividend included in retained earnings	Total equity
As at 1 January 2005		194,230	(276)	514	-	1,048	-	195,516
Shares issued		30,459	-	-	-	-	-	30,459
Share premium arising from shares issued	26	-	42,091	-	-	-	-	42,091
Net profit		-	-	-	-	47,103	-	47,103
Net change in fair value of available-for-sale investments	26	-	(859)	-	-	-	-	(859)
Net loss realised on disposal of available-for-sale investments	26	-	312	-	-	-	-	312
Exchange differences	26	-	6	-	-	-	-	6
Appropriation to general reserve	28	-	-	-	10,332	(10,332)	-	-
Profit distributions	29	-	-	5,987	-	(33,036)	3,370	(27,049)
As at 31 December 2005		224,689	41,274	6,501	10,332	4,783	3,370	287,579
Net profit		-	-	-	-	46,322	-	46,322
Net changes in fair value of available-for-sale investments	26	-	(642)	-	-	-	-	(642)
Net loss realised on disposal of available-for-sale investments	26	-	229	-	-	-	-	229
Exchange differences	26	-	(9)	-	-	-	-	(9)
Appropriation to general reserve	28	-	-	-	9	(9)	-	-
Profit distributions	29	-	-	4,632	-	(8,002)	20,671	(3,370)
As at 31 December 2006		224,689	40,852	11,133	10,341	43,094	20,671	330,109

These financial statements have been approved by the Board of Directors of the Bank.

**Guo Shuqing**  
Chairman  
(Authorised representative)

**Pang Xiusheng**  
Chief Financial Officer

**Ying Chengkang**  
Vice General Manager of the Planning & Financial Department

**Lu Kegui**  
General Manager of the Accounting Department

13 April 2007

The notes on pages 12 to 101 form part of these financial statements.



China Construction Bank Corporation  
Cash flow statement  
*(Expressed in millions of Renminbi)*

	Note to the cash flow statement	<u>2006</u>	<u>2005</u>
Cash flows from operating activities			
Net increase in deposits from customers		688,370	516,925
Net increase in deposits from banks and non-bank financial institutions		88,247	37,535
Net increase in placements from banks and non-bank financial institutions		8,582	-
Net increase in balances under repurchase agreements		-	21,064
Net decrease in deposits with banks and non-bank financial institutions		4,881	-
Net decrease in placements with banks and non-bank financial institutions		13,304	-
Net decrease in balances under resale agreements		37,796	-
Net proceeds from certificates of deposit issued		528	1,688
Recoveries of loans written off in prior years		129	116
Interest and commission received		224,164	178,957
Cash inflows from other operating activities		14,269	12,199
		<hr/>	<hr/>
Sub-total of cash inflows		1,080,270	768,484
		<hr/>	<hr/>
Net increase in loans and advances to customers		(392,882)	(237,248)
Net increase in statutory deposits with central banks		(119,757)	(36,575)
Net increase in deposits with banks and non-bank financial institutions		-	(10,020)
Net increase in placements with banks and non-bank financial institutions		-	(16,455)
Net increase in balances under resale agreements		-	(34,145)
Net decrease in amount due to central banks		-	(2,201)
Net decrease in placements from banks and non-bank financial institutions		-	(5,946)
Net decrease in balances under repurchase agreements		(16,049)	-
Cash paid for interest and commission		(65,869)	(53,298)
Cash paid to and on behalf of employees		(31,116)	(24,611)
Cash paid for all types of taxes		(17,571)	(12,750)
Cash outflows from other operating activities		(23,923)	(31,596)
		<hr/>	<hr/>
Sub-total of cash outflows		(667,167)	(464,845)
		<hr/>	<hr/>
Net cash inflow from operating activities	(I)	413,103	303,639
		<hr/>	<hr/>

The notes on pages 12 to 101 form part of these financial statements.

China Construction Bank Corporation  
Cash flow statement (continued)  
*(Expressed in millions of Renminbi)*

	Note to the cash flow <u>statement</u>	<u>2006</u>	<u>2005</u>
Cash flows from investing activities			
Proceeds from disposal and Redemption of debt securities		658,197	585,440
Proceeds from disposal of equity investments		4,093	5,921
Dividend received		430	540
Cash received from disposal of fixed assets and other assets		796	1,345
		<u>663,516</u>	<u>593,246</u>
		-----	-----
Payments on acquisition of debt securities		(1,164,970)	(895,855)
Payments on acquisition of equity investments		(10,092)	(190)
Payments on acquisition of fixed assets and other assets		(9,942)	(8,992)
		<u>(1,185,004)</u>	<u>(905,037)</u>
		-----	-----
Net cash outflow from investing activities		(521,488)	(311,791)
		-----	-----
Cash flows from financing activities			
Proceeds from shares issuance		-	74,639
Proceeds from securitisation of retail mortgages		-	2,920
		<u>-</u>	<u>77,559</u>
		-----	-----
Dividend paid		(6,638)	(2,914)
Cost of issuing shares		-	(2,089)
Interest paid on subordinated bonds issued		(1,872)	(1,846)
		<u>(8,510)</u>	<u>(6,849)</u>
		-----	-----
Net cash (outflow) / inflow from financing activities		(8,510)	70,710
		-----	-----
Effect of exchange rate changes on cash and cash equivalents held		(1,824)	(1,907)
		<u>(1,824)</u>	<u>(1,907)</u>
		-----	-----
Net (decrease) / increase in cash and cash equivalents	(II)	<u>(118,719)</u>	<u>60,651</u>

The notes on pages 12 to 101 form part of these financial statements.

China Construction Bank Corporation  
Cash flow statement (continued)  
*(Expressed in millions of Renminbi)*

**Notes to the cash flow statement**

	<u>2006</u>	<u>2005</u>
(I) Reconciliation of net profit to net cash inflow from operating activities:		
Net profit	46,322	47,103
Add: Provisions for loan impairment losses	18,098	12,981
Provisions for impairment of other assets	217	1,552
Depreciation of fixed assets and amortisation of intangible assets and other assets	6,986	6,680
Net gain on disposal of fixed assets, intangible assets and other assets	(152)	(30)
Investment income	(2,003)	(3,074)
Net increase in deferred tax assets / liabilities	(2,068)	(497)
Interest expense on subordinated bonds issued	1,883	1,850
Foreign exchange losses related to investment activities	7,565	1,190
Increase in operating receivables	(457,694)	(344,309)
Increase in operating payables	793,949	580,193
	<hr/>	<hr/>
Net cash inflow from operating activities	413,103	303,639
	<hr/> <hr/>	<hr/> <hr/>
(II) Net (decrease) / increase in cash and cash equivalents:		
Cash and cash equivalents at the end of the year	162,038	280,757
Less: Cash and cash equivalents at the beginning of the year	(280,757)	(220,106)
	<hr/>	<hr/>
Net (decrease) / increase in cash and cash equivalents	(118,719)	60,651
	<hr/> <hr/>	<hr/> <hr/>
(III) Cash and cash equivalents		
Cash	30,104	28,413
	<hr/>	<hr/>
Cash equivalents		
Deposits with central banks	103,737	108,395
Deposits with banks and non-bank financial institutions	12,855	12,624
Placements with banks and non-bank financial institutions	15,342	131,325
	<hr/>	<hr/>
Total cash equivalents	131,934	252,344
	<hr/> <hr/>	<hr/> <hr/>
Total	162,038	280,757
	<hr/>	<hr/>

The notes on pages 12 to 101 form part of these financial statements.

China Construction Bank Corporation  
Cash flow statement (continued)  
(Expressed in millions of Renminbi)

**Notes to the cash flow statement (continued)**

(IV) Activities that do not involve cash receipts and payments

	<u>2006</u>	<u>2005</u>
Settlement of a receivable from the government (Note 29)	-	23,781

These financial statements have been approved by the Board of Directors of the Bank.

---

**Guo Shuqing**  
Chairman  
(Authorised  
representative)

---

**Pang Xiusheng**  
Chief Financial  
Officer

---

**Ying Chengkang**  
Vice General Manager  
of the Planning &  
Financial Department

---

**Lu Kegui**  
General Manager  
of the Accounting  
Department

13 April 2007

The notes on pages 12 to 101 form part of these financial statements.

China Construction Bank Corporation  
Notes to the financial statements  
*(Expressed in millions of Renminbi, unless otherwise stated)*

**1 COMPANY STATUS**

China Construction Bank Corporation (the “Bank”) is a joint stock company with limited liability incorporated in Beijing, the People’s Republic of China (the “PRC”) on 17 September 2004. The Bank obtained the financial service certificate No. B10411000H0001 on 15 September 2004, as approved by the China Banking Regulatory Commission (the “CBRC”), and the business license No. 1000001003912 on 17 September 2004, as approved by the State Administration for Industry and Commerce of the PRC. The Bank is under the supervision of the banking regulatory bodies empowered by the State Council of the PRC (the “State Council”).

With the approval of the State Council on 30 December 2003, China Construction Bank (“CCB”) underwent a restructuring (the “Restructuring”). Pursuant to which, the Bank succeeded to the commercial banking businesses, together with the relevant assets and liabilities of CCB as at 31 December 2003, the base date for the Restructuring. Other businesses that were not related to the commercial banking businesses, together with the relevant assets and liabilities, were transferred to China Jianyin Investment Limited (“Jianyin”).

Upon incorporation on 17 September 2004, the Bank issued 165,538 million and 20,692 million promoters’ shares with a par value of RMB 1 each to China SAFE Investments Limited (“formerly Central Huijin Investment Co., Ltd. and the sole owner of CCB) (“Huijin”) and Jianyin respectively as consideration for succeeding to the commercial banking businesses and the relevant assets and liabilities of CCB. On the same date, the Bank issued a total of 8,000 million promoters’ shares with a par value of RMB 1 each for cash to three other promoters, State Grid Corporation of China (“State Grid”), Shanghai Baosteel Group Corporation (“Shanghai Baosteel”) and China Yangtze Power Co., Limited (“Yangtze Power”). In total, the Bank issued 194,230 million shares with a par value of RMB 1 each. All shares rank pari passu.

On 27 October 2005, the Bank publicly offered 30,459 million H shares with a par value of RMB 1 each on the Main Board of the Stock Exchange of Hong Kong Limited at a price of HK\$ 2.35 each. A total amount equivalent to RMB 72,550 million was raised (after accounting for the interest income arising from the subscription proceeds during the lock up period and stock issuing costs and agency fees). All shares rank pari passu.

The principal activities of the Bank include deposit taking, lending, payment settlement and other financial services in Renminbi and foreign currencies as approved by the CBRC.

China Construction Bank Corporation  
Notes to the financial statements  
(Expressed in millions of Renminbi, unless otherwise stated)

**2 BASIS OF PREPARATION**

The accounting policies adopted by the Bank in preparing the financial statements are based on the Accounting Standards for Business Enterprises, the *Accounting Regulations for Financial Enterprises (2001)*, the “Provisional Rules on Recognition and Measurement of Financial Instruments (Trial)” (Cai Kuai [2005] No. 14) and other relevant regulations issued by the MOF.

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.

**3 SIGNIFICANT ACCOUNTING POLICIES**

(a) Accounting year

The accounting year of the Bank is from 1 January to 31 December.

(b) Basis of preparation of the financial statements

The Bank’s financial statements have been prepared based on the individual financial statements and other relevant information of its 38 tier-1 branches in mainland China, the head office and 6 overseas branches. All material inter-branch transactions and balances have been eliminated during combination.

(c) Accounting basis and measurement principle

The financial statements of the Bank have been prepared on an accrual basis. Except for financial assets and financial liabilities which are measured at fair value (Note 3(f)), and fixed assets, construction in progress and intangible assets which are measured at valuation on the base date for the Restructuring, the measurement basis used is historical cost.

(d) Reporting currency

The Bank’s reporting currency is Renminbi.

**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

- (e) Accounting for foreign currency transactions and translation of financial statements denominated in foreign currencies

Foreign currency transactions during the year are translated into Renminbi at the exchange rates quoted by the People's Bank of China and other exchange rates recognised by the state ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the exchange rates quoted by the People's Bank of China and other exchange rates recognised by the state ruling at the balance sheet 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.. Exchange gains and losses on foreign currency translation are dealt with in the income statement.

The assets and liabilities of overseas operations 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 dealt with as a foreign exchange reserve and included in equity.

The Bank adopts the exchange rates quoted by the People's Bank of China ("PBOC") and other exchange rates recognised by the government.

### 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (f) Financial instruments

In accordance with the “Provisional Rules on Recognition and Measurement of Financial Instruments (Trial)” (Cai Kuai [2005] No. 14) issued by the MOF, financial instruments are recognised and measured by the Bank according to its holding purpose. Financial assets include cash, equity investments, contractual rights to receive cash or other financial assets from other entity and contractual rights to exchange financial assets or financial liabilities with other entity under conditions that are potentially favourable to the Bank. Financial assets are classified into the following four categories when they are initially recognised: held-for-trading financial assets, held-to-maturity investments, loans and receivables, and available-for-sale financial assets. Financial liabilities include contractual obligations of the Bank to pay cash or other financial assets to other entity and contractual obligations to exchange financial assets or financial liabilities with other entity under conditions that are potentially unfavourable to the Bank. Financial liabilities are classified into trading financial liabilities and other financial liabilities when they are initially recognised.

#### (i) Recognition and measurement

All financial assets and financial liabilities are recognised in the balance sheet when the Bank becomes a party to the contractual provisions of the instrument. Financial assets are derecognised on the date when the contractual rights to future cash flows expire. Financial liabilities are fully or partly derecognised on the date when the current obligations specified in the contracts are fully or partly discharged. A regular way purchase or sale of financial asset is recognised using trade date accounting.

At initial recognition, all financial assets and financial liabilities are measured at fair value. Transaction costs related to financial assets or financial liabilities held-for-trading are directly recognised as profit or loss by the Bank. Transaction costs related to other categories of financial assets or financial liabilities are recognised in the initial measured amount.

Financial assets and financial liabilities are categorised as follows:

- Held-for-trading financial assets and financial liabilities

Held-for-trading financial assets and financial liabilities include those financial instruments that are intended to be sold or repurchased at fair value in recent periods or managed for the purpose of short term profit taking and derivative financial instruments, except for those derivative financial instruments that are qualified for hedge accounting (Note 3(g)) and derivative financial instruments for financial guarantee contracts. Held-for-trading financial assets and financial liabilities are stated at fair value at the balance sheet date and the gains or losses arising from changes in fair value are recognised in the income statement.



### 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial instruments (continued)

(i) Recognition and measurement (continued)

- Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed maturity and a fixed or determinable recoverable amount that the Bank has the positive intent and ability to hold to maturity. Held-to-maturity investments are stated at the balance sheet date at amortised cost, using the effective interest rate method. Amortised cost is the initial cost of a financial asset or financial liability minus principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between that initial amount and the maturity amount, and minus the allowance for any impairment losses recognised.

- Loans and receivables

Loans and receivables are non-derivative financial assets held by the Bank with fixed or determinable recoverable amounts that are not quoted on an active market. Loans and receivables are stated at the balance sheet date at amortised cost (minus the allowance for impairment losses recognised) using the effective interest rate method.

- Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as such when they are initially recognised and financial assets which do not fall into any of the above-mentioned categories. Available-for-sale financial assets are stated at fair value at the balance sheet date, with gains or losses arising from changes in fair value be recognised in the capital reserve before such financial assets are transferred or deemed impaired. Gains or losses previously recognised in the capital reserve are recognised in the income statement when the financial asset is derecognised or impaired.

- Other financial liabilities

Other financial liabilities are financial liabilities other than those held-for-trading. These financial liabilities are stated at the amortised cost at the balance sheet date, using the effective interest rate method.

Financial assets are measured in the subsequent periods by the Bank without deducting any transaction costs that may occur upon sale or disposal in the future.

### 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- (f) Financial instruments (continued)
- (ii) Allowance for impairment losses

Carrying values of financial assets other than those held-for-trading are assessed by the Bank at the balance sheet date and allowances for impairment losses are recognised when there is objective evidence that a financial asset is impaired. Objective evidence of impairment of a financial asset represents events that occurred after the initial recognition of the financial asset and have an impact on the estimated future cash flows of the financial asset that can be reliably estimated by the Bank.

- Loans and receivables and held-to-maturity investments

When impairment exists on loans and receivables and held-to-maturity investments, the carrying value of the financial asset is reduced to its recoverable amount. The amount of reduction is recognised as impairment loss on the asset in the income statement. The recoverable amount is determined by discounting the future cash flows of the financial asset (excluding future credit losses that have not been incurred) at its original effective interest rate, after taking into account the value of collateral (after deducting the estimated disposal costs).

The Bank uses two methods to assess allowance for impairment losses on loans and receivables and held-to-maturity investments: those assessed individually and those assessed on a collective basis.

#### *Individually assessed financial assets*

Financial assets, which are considered individually significant, are assessed individually for impairment. If there is objective evidence that an impairment loss on a financial asset has been incurred, the amount of impairment loss is recognised in the income statement. Objective evidence of impairment mainly includes:

- Significant financial difficulty of the issuer or 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 Bank would not otherwise consider;
- It is probable that the borrower will become bankrupt or go through other forms of financial reorganisation, etc.

### 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial instruments (continued)

(ii) Allowance for impairment losses (continued)

- Loans and receivables and held-to-maturity investments (continued)

*Collectively assessed financial assets*

Collectively assessed financial assets include individually significant financial assets with no objective evidence of impairment on an individual basis and financial assets not considered individually significant. Financial assets (excluding those financial assets for which an allowance for impairment losses has been made on an individual basis) are grouped on the basis of similar credit risk characteristics for impairment assessment. Assets which are assessed collectively for impairment are assessed in the light of the 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 financial assets since the initial recognition of those assets, such as 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 though there is no identifiable evidence indicating decreased cash flows for an individual asset included in the group.

If, subsequent to the recognition of the impairment losses on loans and receivables and held-to-maturity investments, there is objective evidence indicating that the value of those financial assets have recovered which can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed and recognised in the income statement. The reversal shall not result in a carrying amount of the financial asset that exceeds the amortised cost at the balance sheet date had the allowance for impairment losses not been made.

Where a borrower or guarantor fails to repay the principal and interest on a loan, and repossessed assets are received by the Bank for recovery of the impaired loan, the carrying value of the impaired loan is adjusted, if necessary, to the net recoverable amount of the repossessed assets through impairment allowances. The adjusted carrying value of the impaired loan and the corresponding impairment allowance are transferred to repossessed assets.

When the Bank determines that a loan has no reasonable prospect of recovery after the Bank has completed all the necessary legal or other proceedings, the loan is written off against its impairment allowance. If in a subsequent period the loan written off is recovered, the amount recovered is recognised in the income statement to offset the provision for impairment losses for that period.

### 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial instruments (continued)

(ii) Allowance for impairment losses (continued)

- Available-for-sale assets

When an available-for-sale asset is impaired, the cumulative losses resulting from a decline in the fair value that had been recognised directly in the capital reserve is transferred out and recognised in the income statement even though the financial asset has not been derecognised.

If the impairment loss for an available-for-sale equity instrument has been recognised, no reversal can be made through profit or loss. If in a subsequent accounting period there is an increase in the fair value of an available-for-sale debt instrument to which impairment losses had been recognised and the increase can be objectively related to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed and recognised in the income statement.

(iii) Fair value measurement

The fair value of financial instruments is based on their quoted market price in an active market without any deduction for transaction costs. A quoted market price is from an active market where price information is readily and regularly available from institutions such as an exchange, an industry group and a pricing service agency, and represents actual and regularly occurring market price on an arm's length basis.

If a quoted market price is not available, the fair value of the financial instrument is established with valuation techniques by the Bank. Valuation techniques include reference to the fair value of other instrument that is substantially the same, discounted cash flow analysis and option pricing models.

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

The Bank obtains market data from the same market where the financial instrument was originated or purchased.

### **3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

(g) Derivative financial instruments designated for hedging

The Bank uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from its investment activities.

The Bank 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 a relationship qualifying for hedge accounting. The Bank assesses and documents, both at hedge inception and on an ongoing basis, of whether the derivative financial instruments are effective in offsetting changes in fair values due to the hedged risks. A fair value hedge seeks to offset risks of changes in the fair value of an existing asset or liability that will give rise to a gain or loss being recognised in the income statement.

Gains or losses arising from the changes in the fair value of derivative financial instruments that are qualified for hedge accounting are recognised in the income statement. A gain or loss arising from the change in the fair value of the hedged item which is due to the risk hedged with the hedging instrument is recognised in the income statement when incurred and is reflected as an adjustment 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.

(h) Amounts held under resale and repurchase agreements

In resale and repurchase agreements, the cash advanced or received is recognised as amounts held under resale and repurchase agreements on the balance sheet. Assets purchased under resale agreements are recorded in memorandum accounts as off-balance sheet items. Assets sold under repurchase agreements continue to be recognised in the balance sheet.

The difference between the purchase and resale consideration or the sale and repurchase consideration is accounted for on an accrual basis and is amortised over the period of the transaction, and is included in interest income and expenses arising from deposits and placements with financial institutions respectively.

### 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Long term equity investments

Long term equity investments consist of equity investments in investee entities whereby the Bank has the ability to control, jointly control or exercise significant influence, and equity investments in investee entities whereby the Bank does not control, jointly control or cannot exercise significant influence, and there is no quotation in an active market and the fair value of the investee entities cannot be measured reliably.

Long term equity investments in investee entities whereby the Bank has the ability to control, jointly control or exercise significant influence are accounted for under equity method of accounting, these investments are initially recorded at initial investment cost and adjusted thereafter according to the Bank's share of the investees' profit or loss and recognize the investment income or loss in the income statement of related periods. The Bank reduces the carrying value of its long term equity investment according to its share of the profit distribution or cash dividends declared by the investee entities.

Where the Bank does not control, jointly control or exercises significant influence over an investee entity, and there is no quotation in an active market and fair value of the investee entities cannot be measured reliably, the long term equity investments are accounted for under the cost method. Investment income is recognised once the investee entities declare profit distribution or cash dividend.

Long term equity investments are stated at carrying amount less any allowance for impairment losses (Note 3(m)) in the balance sheet. Upon the disposal or transfer of equity investments, the difference between the proceeds received and the net carrying value after providing for impairment losses is recognised as profit or loss.

(j) Fixed assets and construction in progress

Fixed assets are assets with comparatively high unit values held by the Bank for developing its banking business. They are expected to be used for more than one year.

Fixed assets are stated in the balance sheet at cost or valuation less accumulated depreciation and allowance for impairment losses (Note 3(m)). Construction in progress is stated in the balance sheet at cost or valuation less allowance for impairment losses (Note 3(m)).

All direct and indirect costs that are related to the construction of fixed assets and incurred before the assets are ready for their intended use are capitalised as construction in progress. Construction in progress is transferred to fixed assets when it is ready for its intended use. No depreciation is provided against construction in progress.

### 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Fixed assets and construction in progress (continued)

Fixed assets are depreciated using the straight-line method over their estimated useful lives, after taking into account of their estimated residual value. The respective estimated useful lives for the Bank's fixed assets are as follows:

<u>Asset category</u>	<u>Estimated useful life</u>
Land use rights	30-50 years
Bank premises	30-35 years
Computer equipment	3-8 years
Others	4-11 years

(k) Intangible assets

Intangible assets are stated in the balance sheet at cost or valuation less accumulated amortisation and allowance for impairment losses (Note 3(m)). The cost or valuation of intangible assets is amortised on a straight-line basis over their estimated useful lives which range from 3 to 50 years.

(l) Repossessed assets

Repossessed assets are recorded at the amount of the related loan principal value plus any recognised interest receivable and minus related taxes arising from the acquisition of the assets. At the same time, all the corresponding allowance for impairment losses on the loan is transferred to allowance for impairment losses on repossessed assets. At the period end, repossessed assets are stated in the balance sheet at cost less allowance for impairment losses (Note 3(m)).

### 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Allowance for impairment losses on non-financial assets

The carrying amounts of assets (including fixed assets, construction in progress, intangible assets and repossessed assets and long term equity investments) are assessed regularly to determine whether their recoverable amounts have declined below their carrying amounts. Assets are tested for impairment whenever events or changes in conditions indicate that their recorded carrying amounts may not be recoverable.

When such a decline has occurred, allowance for impairment losses are recognised on an item-by-item basis for the deficit between the recoverable amount and the carrying amount. Changes in the allowance for impairment losses are recognised in the income statement when incurred. The recoverable amount is the greater of the net selling price and the present value of the estimated future cash flows arising from the continuous use of the asset and from the disposal of the asset at the end of its useful life.

If there is an indication that there has been a change in the factors used to determine the allowance for impairment losses and as a result the estimated recoverable amount is greater than the carrying amount of the asset, the impairment losses recognised in prior periods are reversed. Reversals of impairment losses are recognised in the income statement. An impairment loss is reversed only to the extent of the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years.

(n) Entrusted loans and entrusted funds

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

Entrusted lending is one of the principal fiduciary activities of the Bank. The Bank enters into entrusted loan agreements with a number of customers, whereby the customers provide funding (the "entrusted loan funds") to the Bank, and the Bank grants loans to third parties (the "entrusted loans") at the instruction of the customers. As the Bank does not assume the risks and rewards of the entrusted loans and the corresponding entrusted loan funds, entrusted loans and funds are recorded as off-balance sheet items at their principal amounts and no allowances are provided for these entrusted loans.



### 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Income recognition

When it is probable that the economic benefits will flow to the Bank and the income can be measured reliably, income is recognised in the income statement according to the following methods:

(i) Interest income

Interest income from financial assets is accrued on a time-apportioned basis with reference to the principal outstanding and at the rate applicable.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (including a series of financial assets or financial liabilities) and of allocating the interest income or the interest expense 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 to the net carrying amount of the financial asset or the financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (including prepayment, call and similar options) but does not consider future credit losses. The calculation includes transaction costs such as commission and all other premiums or discounts paid or received between parties to the contract.

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.

(ii) Commission income

Commission income is recognised when the related services are rendered.

(iii) Other income

Other income is recognised on an accruals basis.

### 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Expense recognition

(i) Interest expenses

Interest expenses are recognised on an accruals basis with reference to the amount and period outstanding and at the rate applicable.

(ii) Other expenses

Other expenses are recognised on an accruals basis.

(q) Employee benefits

The Bank participates in social insurance programs established by government agencies, including pension plans, medical insurance, housing provident funds and other social insurance. Insurance and provident funds contributions (a proportion of salaries not exceeding the prescribed ceiling) are paid to the relevant labour and social insurance agencies and recognised in income statement when incurred.

In addition to the basic staff pension schemes, domestic employees also participate in a supplementary retirement income program established by the Bank in accordance with the relevant government policy on corporate annuity plan (the “Annuity Plan”). The Bank will pay to the Annuity Plan according to certain percentage of the employees' gross salary.

The Bank pays supplementary retirement benefits for its PRC employees who retired on or before 31 December 2003 in addition to the statutory pension schemes. These supplementary retirement benefits include supplementary pension, medical expenses and others (“the supplementary retirement benefits”). The Bank estimates the obligations arising from the supplementary retirement benefits, which is the present value of the total estimated amount of future benefits that the Bank is committed to pay for the above-mentioned employees, and recognises the obligations as provisions.

Except for the above employee benefits, the Bank has no material obligations in respect of retirement benefits.

### 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Income tax

The Bank uses the tax-effect accounting method to account for income tax. Income tax for the year comprises current income tax and payable and movements in deferred tax.

Current income tax is calculated at the applicable tax rate on taxable income.

Deferred tax is provided for using the liability method for the differences between the accounting profits and the taxable profits arising from the timing differences in recognising income, expenses or losses between the accounting and tax regulations. Deferred tax is only recognised to the extent that it is probable that the timing differences can be crystallised in the future. When the tax rate changes or a new type of tax is levied, adjustments are made to the amounts originally recognised for the timing differences under the liability method. The current tax rates are used in arriving at the reversal amounts when the timing differences are reversed.

When it is not probable that the tax benefits of deferred tax assets will be realised, the deferred tax assets are reduced to the extent that the related tax benefits are expected to be realised.

(s) Cash equivalents

Cash equivalents represent short-term, highly liquid investments, which are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value. Cash equivalents include surplus deposit reserves with central banks and deposits or placements with banks and non-bank financial institutions with original maturity of three months or less.

(t) Provisions and contingent liability

Provisions are recognised when the Bank has a present obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligations and a reliable estimate can be made.

Where it is not probable that the settlement of the above obligation will cause an outflow of economic benefits, or the amount of the outflow cannot be estimated reliably, the obligation is disclosed as a contingent liability.

### 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Profit distributions

Profit distributions are recognised in the statement of changes in shareholders' equity upon approval. Cash dividends approved after the balance sheet date, but before the approval of the financial statements, are disclosed on the face of the balance sheet as a separate component under shareholders' equity.

(v) Related parties

If the Bank has the power, directly or indirectly, to control, jointly control or exercise significant influence over another party, or vice versa, or where the Bank and one or more parties are subject to common control from another party, they are considered to be related parties. Related parties may be individuals or enterprises.

(w) Segment reporting

A segment is a distinguishable component of the Bank 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.

(x) General reserve

Pursuant to the "Administrative Measures on Provision for Doubtful Debts of Financial Institutions" (Cai Jin [2005] No.49) issued by the MOF on 17 May 2005 and relevant requirements, starting from 2005, a general reserve has been set aside by the Bank based on the amount of assets (before the deduction of allowance for impairment losses) for which the Bank bears risk at the balance sheet date. The general reserve forms part of the equity of the financial institution, and transfers to it are through appropriations of profit after taxation.

China Construction Bank Corporation  
Notes to the financial statements  
*(Expressed in millions of Renminbi, unless otherwise stated)*

**4 TAXES**

The Bank's main applicable taxes and tax rates are as follows:

(a) Business tax

Business tax is charged at 5% on taxable income.

(b) City construction tax

City construction tax is calculated as 1% - 7% of business tax.

(c) Education surcharge

Education surcharge is calculated as 3% of business tax.

(d) Income tax

The income tax on the Bank's branches in mainland China is charged at the rate of 33%. As the income taxes on overseas branches are charged at the relevant local rates, when filing the consolidated tax return, tax deductions are allowable according to the relevant income tax laws of the PRC. All tax exemptions are determined upon approval from the relevant government departments.

**5 DEPOSITS WITH CENTRAL BANKS**

		<u>2006</u>	<u>2005</u>
Statutory deposit reserves	(a)	402,835	281,783
Surplus deposit reserve	(b)	103,737	108,395
Fiscal deposits		2,880	4,175
		<hr/>	<hr/>
Total		509,452	394,353
		<hr/> <hr/>	<hr/> <hr/>

- (a) The Bank places statutory deposit reserves with the PBOC and the central banks of certain overseas countries where it has operations.

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 for domestic branches as a statutory deposit reserve.

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

- (b) The surplus deposit reserves were maintained with the PBOC for the purposes of clearing.

China Construction Bank Corporation  
Notes to the financial statements  
*(Expressed in millions of Renminbi, unless otherwise stated)*

**6 DEPOSITS WITH BANKS AND NON-BANK FINANCIAL INSTITUTIONS**

(a) Analysed by nature

	<u>2006</u>	<u>2005</u>
Deposits in Mainland China		
– Banks	7,971	13,372
– Non-bank financial institutions	8,137	5,410
	<hr/>	<hr/>
Sub-total	16,108	18,782
Deposits with banks outside Mainland China	1,996	3,996
	<hr/>	<hr/>
Total	18,104	22,778
Less: Allowances for impairment losses	(b) (113)	(137)
	<hr/>	<hr/>
Net balances	<u>17,991</u>	<u>22,641</u>

(b) Movements of allowances for impairment losses

	<u>2006</u>	<u>2005</u>
As at 1 January	137	370
Charge for the year	3	6
Write-offs	(27)	(239)
	<hr/>	<hr/>
As at 31 December	<u>113</u>	<u>137</u>

China Construction Bank Corporation  
Notes to the financial statements  
*(Expressed in millions of Renminbi, unless otherwise stated)*

**7 PLACEMENTS WITH BANKS AND NON-BANK FINANCIAL INSTITUTIONS**

(a) Analysed by nature

	<u>2006</u>	<u>2005</u>
Placements in Mainland China		
– Banks	8,788	8,932
– Non-bank financial institutions	1,749	2,284
	<hr/>	<hr/>
Sub-total	10,537	11,216
Placements with banks outside Mainland China	15,766	144,894
	<hr/>	<hr/>
Total	26,303	156,110
Less: Allowances for impairment losses	(b) (796)	(1,316)
	<hr/>	<hr/>
Net balances	<u>25,507</u>	<u>154,794</u>

(b) Movements of allowances for impairment losses

	<u>2006</u>	<u>2005</u>
As at 1 January	1,316	2,269
Charge for the year	6	10
Write-offs	(526)	(963)
	<hr/>	<hr/>
As at 31 December	<u>796</u>	<u>1,316</u>

China Construction Bank Corporation  
Notes to the financial statements  
*(Expressed in millions of Renminbi, unless otherwise stated)*

**8 BALANCES UNDER RESALE AGREEMENTS**

(a) Analysed by pledged security held

	<u>2006</u>	<u>2005</u>
Government bonds	6,323	56,337
Bills issued by the PBOC	7,419	1,073
Debt securities issued by policy banks	9,189	8,628
Other debt securities	7,083	5,140
Loans and advances to customers	3,368	-
	<hr/>	<hr/>
Total	33,382	71,178
Less: Allowances for impairment losses	(11)	(11)
	<hr/>	<hr/>
Net balances	33,371	71,167
	<hr/>	<hr/>



China Construction Bank Corporation  
Notes to the financial statements  
*(Expressed in millions of Renminbi, unless otherwise stated)*

**9 DEBT SECURITIES**

		<u>2006</u>	<u>2005</u>
Held-for-trading debt securities	(a)	3,454	2,433
Receivables	(b)	546,357	443,729
Held-to-maturity debt securities	(c)	1,038,275	643,671
Available-for-sale debt securities	(d)	307,956	311,340
		<hr/>	<hr/>
Total		1,896,042	1,401,173
		<hr/>	<hr/>

(a) Held-for-trading debt securities

		<u>2006</u>	<u>2005</u>
Issued by:			
Governments			
– in Mainland China		486	361
– outside Mainland China		207	234
The PBOC		-	49
Policy banks			
– in Mainland China		116	718
– outside Mainland China		100	142
Banks and non-bank financial institutions outside Mainland China		1,229	615
Public sector entities outside Mainland China		-	244
Other entities			
– in Mainland China		986	-
– outside Mainland China		330	70
		<hr/>	<hr/>
Total		3,454	2,433
		<hr/>	<hr/>

China Construction Bank Corporation  
Notes to the financial statements  
*(Expressed in millions of Renminbi, unless otherwise stated)*

**9 DEBT SECURITIES (CONTINUED)**

(b) Receivables

		<u>2006</u>	<u>2005</u>
Due from issuers in Mainland China:			
Government			
– Special government bond	(i)	49,200	49,200
– Others		530	530
The PBOC	(ii)	186,631	94,197
Policy banks		54,833	49,872
Cinda	(iii)	247,000	247,000
Banks		7,573	2,930
Other entities		590	-
		<hr/>	<hr/>
Total		546,357	443,729
		<hr/> <hr/>	<hr/> <hr/>

- (i) This represents a non-negotiable bond with a nominal value of RMB 49,200 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.

China Construction Bank Corporation  
Notes to the financial statements  
*(Expressed in millions of Renminbi, unless otherwise stated)*

**9 DEBT SECURITIES (CONTINUED)**

(b) Receivables (continued)

(ii) Due from the PBOC includes:

- a non-transferable bill with a nominal value of RMB 63,354 million issued specifically to CCB. The majority of the proceeds received from China Cinda Asset Management Company (“Cinda”) on the disposal of impaired loans and advances were used to subscribe for the PBOC bill at nominal value. 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 RMB 21,000 million issued for settlement of CCB’s receivables arising from its appointment by the State Council and the PBOC to act as a receiver in respect of the liquidation of a trust and investment company. 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 RMB 593 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 RMB 247,000 million. The bond matures in September 2009 and bears interest at a fixed rate of 2.25% per annum. According to Cai Jin [2004] No. 87, the “Notice issued by the MOF in relation to the Principal and Interest Income of the Bonds issued by financial asset management companies and held by the Bank of China and CCB”, 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.

China Construction Bank Corporation  
Notes to the financial statements  
*(Expressed in millions of Renminbi, unless otherwise stated)*

**9 DEBT SECURITIES (CONTINUED)**

(c) Held-to-maturity debt securities

	<u>2006</u>	<u>2005</u>
Issued by:		
Governments		
– in Mainland China	247,271	205,639
– outside Mainland China	25,636	161
The PBOC	391,794	218,281
Policy banks		
– in Mainland China	198,879	144,467
– outside Mainland China	7,244	1,630
Banks and non-bank financial institutions		
– in Mainland China	17,110	17,115
– outside Mainland China	94,900	37,902
Public sector entities outside Mainland China	52,230	17,938
Other entities		
– in Mainland China	72	176
– outside Mainland China	3,139	362
Total	<u>1,038,275</u>	<u>643,671</u>
Listed debt securities	87,003	29,565
Unlisted debt securities	951,272	614,106
Total	<u>1,038,275</u>	<u>643,671</u>
Market value of listed debt securities	<u>86,314</u>	<u>28,848</u>

China Construction Bank Corporation  
Notes to the financial statements  
*(Expressed in millions of Renminbi, unless otherwise stated)*

**9 DEBT SECURITIES (CONTINUED)**

(d) Available-for-sale debt securities

	<u>2006</u>	<u>2005</u>
At fair value and issued by:		
Governments		
–in Mainland China	6,532	13,404
– outside Mainland China	24,077	43,905
The PBOC	141,642	110,114
Central banks outside Mainland China	-	310
Policy banks		
– in Mainland China	14,240	10,429
– outside Mainland China	1,623	5,399
Banks and non-bank financial institutions		
– in Mainland China	864	-
– outside Mainland China	73,061	87,701
Public sector entities		
outside Mainland China	25,174	23,086
Other entities		
– in Mainland China	14,555	13,245
– outside Mainland China	6,188	3,747
Total	<u>307,956</u>	<u>311,340</u>
Listed debt securities	54,466	76,425
Unlisted debt securities	253,490	234,915
Total	<u>307,956</u>	<u>311,340</u>

China Construction Bank Corporation  
Notes to the financial statements  
*(Expressed in millions of Renminbi, unless otherwise stated)*

**10 LOANS AND ADVANCES TO CUSTOMERS**

		<u>2006</u>	<u>2005</u>
Corporate loans		2,100,176	1,808,046
Personal loans		585,303	453,943
Discounted bank acceptance bills		144,291	178,846
Discounted trade acceptance bills		15,134	15,463
		<hr/>	<hr/>
Gross loans and advances to customers	(a)	2,844,904	2,456,298
Less: Allowances for impairment losses	(f)	(77,472)	(63,072)
		<hr/>	<hr/>
Net loans and advances to customers	(b),(c),(d),(e)	<u>2,767,432</u>	<u>2,393,226</u>

(a) Analysed by type of collateral

		<u>2006</u>	<u>2005</u>
Unsecured loans		713,347	686,376
Guaranteed loans		680,897	632,797
Loans secured by tangible assets other than monetary assets		1,186,402	934,669
Loans pledged by monetary assets		264,258	202,456
		<hr/>	<hr/>
Total		<u>2,844,904</u>	<u>2,456,298</u>

China Construction Bank Corporation  
Notes to the financial statements  
*(Expressed in millions of Renminbi, unless otherwise stated)*

**10 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)**

(b) Loans and advances to customers and allowances

	2006			Total	Gross impaired loans and advances as a % of gross total loans and advances
	Loans and advances for which allowances are collectively assessed	Impaired loans and advances for which allowances are collectively assessed	Impaired loans and advances for which allowances are individually assessed		
Gross loans and advances to					
- financial institutions	259	-	-	259	-
- non-financial institutions	2,750,407	35,976	58,262	2,844,645	3.31%
	<u>2,750,666</u>	<u>35,976</u>	<u>58,262</u>	<u>2,844,904</u>	<u>3.31%</u>
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)	
	<u>(22,002)</u>	<u>(13,929)</u>	<u>(41,541)</u>	<u>(77,472)</u>	
Net loans and advances to					
- financial institutions	257	-	-	257	
- non-financial institutions	2,728,407	22,047	16,721	2,767,175	
	<u>2,728,664</u>	<u>22,047</u>	<u>16,721</u>	<u>2,767,432</u>	

China Construction Bank Corporation  
Notes to the financial statements  
*(Expressed in millions of Renminbi, unless otherwise stated)*

**10 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)**

(b) Loans and advances to customers and allowance (continued)

	2005			Total	Gross impaired loans and advances as a % of gross total loans and advances
	Loans and advances for which allowances are collectively assessed	Impaired loans and advances for which allowances are collectively assessed	Impaired loans and advances for which allowances are individually assessed		
Gross loans and advances to					
- financial institutions	782	-	-	782	-
- non-financial institutions	2,361,124	46,918	47,474	2,455,516	3.84%
	<u>2,361,906</u>	<u>46,918</u>	<u>47,474</u>	<u>2,456,298</u>	<u>3.84%</u>
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)	
	<u>(19,419)</u>	<u>(13,233)</u>	<u>(30,420)</u>	<u>(63,072)</u>	
Net loans and advances to					
- financial institutions	780	-	-	780	
- non-financial institutions	2,341,707	33,685	17,054	2,392,446	
	<u>2,342,487</u>	<u>33,685</u>	<u>17,054</u>	<u>2,393,226</u>	



China Construction Bank Corporation  
Notes to the financial statements  
*(Expressed in millions of Renminbi, unless otherwise stated)*

**10 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)**

(c) Analysed by industry

	<u>2006</u>	<u>2005</u>
Manufacturing	519,165	441,562
Transportation, storage and postal services	334,493	285,832
Production and supply of electric power, gas and water	321,554	267,279
Property development	309,051	260,803
Construction	96,922	87,301
Water, environment and public utility management	92,173	75,959
Wholesale and retail trade	77,568	64,263
Education	77,458	63,395
Rental and business services	66,681	50,041
Mining	55,909	49,332
Telecommunications, computer services and software	43,274	64,669
Others	105,928	97,610
	<hr/>	<hr/>
Subtotal for corporate loans	2,100,176	1,808,046
Personal loans	585,303	453,943
	<hr/>	<hr/>
Subtotal	2,685,479	2,261,989
Discounted bills	159,425	194,309
	<hr/>	<hr/>
Gross loans and advances to customers	2,844,904	2,456,298
Less: Allowances for impairment losses	(77,472)	(63,072)
	<hr/>	<hr/>
Net loans and advances to customers	<u>2,767,432</u>	<u>2,393,226</u>

China Construction Bank Corporation  
Notes to the financial statements  
*(Expressed in millions of Renminbi, unless otherwise stated)*

**10 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)**

(d) Analysed by legal form of borrowers

	<u>2006</u>	<u>2005</u>
State-owned enterprises	961,145	844,210
Joint-stock enterprises	391,502	374,132
Private enterprises	315,080	214,509
Foreign invested enterprises	222,906	182,185
Collectively-controlled enterprises	45,888	42,963
Jointly-owned enterprises	18,308	18,698
Others	145,347	131,349
	<hr/>	<hr/>
Subtotal for corporate loans	2,100,176	1,808,046
Personal loans	585,303	453,943
	<hr/>	<hr/>
Subtotal	2,685,479	2,261,989
Discounted bills	159,425	194,309
	<hr/>	<hr/>
Gross loans and advances to customers	2,844,904	2,456,298
Less: Allowances for impairment losses	(77,472)	(63,072)
	<hr/>	<hr/>
Net loans and advances to customers	<u>2,767,432</u>	<u>2,393,226</u>

China Construction Bank Corporation  
Notes to the financial statements  
*(Expressed in millions of Renminbi, unless otherwise stated)*

**10 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)**

(e) Analysed by geographical segments

	<u>2006</u>	<u>2005</u>
Yangtze River Delta	714,373	608,384
Pearl River Delta	399,229	328,399
Bohai Rim	549,755	494,216
Central	463,670	405,956
Western	469,428	398,664
Northeastern	177,771	152,762
Head office	28,095	35,421
Outside Mainland China	42,583	32,496
	<hr/>	<hr/>
Gross loans and advances to customers	2,844,904	2,456,298
Less: Allowances for impairment losses	(77,472)	(63,072)
	<hr/>	<hr/>
Net loans and advances to customers	<u>2,767,432</u>	<u>2,393,226</u>

(f) Movements of allowances for impairment losses

	<u>2006</u>			<u>Total</u>
	<u>Allowances for loans and advances which are collectively assessed</u>	<u>Allowances for impaired loans and advances which are collectively assessed</u>		
		<u>which are collectively assessed</u>	<u>which are individually assessed</u>	
As at 1 January	19,419	13,233	30,420	63,072
Charge for the year				
- new impairment allowances charged to income statement	2,582	897	19,018	22,497
- impairment allowances released to income statement	-	-	(4,399)	(4,399)
Transfer out (note)	-	(27)	(476)	(503)
Recoveries	-	-	129	129
Write-offs	-	(174)	(3,150)	(3,324)
	<hr/>	<hr/>	<hr/>	<hr/>
As at 31 December	<u>22,001</u>	<u>13,929</u>	<u>41,542</u>	<u>77,472</u>

China Construction Bank Corporation  
Notes to the financial statements  
*(Expressed in millions of Renminbi, unless otherwise stated)*

**10 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)**

(f) Movements of allowances for impairment losses (continued)

	2005			Total
	Allowances for loans and advances which are collectively assessed	Allowances for impaired loans and advances which are collectively assessed	which are individually assessed	
As at 1 January 2005	19,490	14,094	20,245	53,829
Charge for the year	(71)	(735)	13,787	12,981
Transfer out (note)	-	(48)	(38)	(86)
Recoveries	-	-	116	116
Write-offs	-	(78)	(3,690)	(3,768)
As at 31 December 2005	<u>19,419</u>	<u>13,233</u>	<u>30,420</u>	<u>63,072</u>

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

China Construction Bank Corporation  
Notes to the financial statements  
*(Expressed in millions of Renminbi, unless otherwise stated)*

**11 AVAILABLE-FOR-SALE EQUITY INVESTMENTS**

		<u>2006</u>	<u>2005</u>
Debt equity swap investments	(a)	7,550	10,886
Other equity investments		1,426	580
		<hr/>	<hr/>
Total		<u>8,976</u>	<u>11,466</u>

- (a) Pursuant to the arrangement by the PRC government in 1999, the Bank 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 management of the operation of these corporate borrowers although the banks hold equity interests through the above debt equity swap arrangement.

The Bank is required to comply with the Notice and has not controlled the financial and operating policy decisions of these corporate borrowers nor exert significant influence over these policies. In substance, the Bank does not have any control or significant influence over these corporate borrowers. The Bank 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.

China Construction Bank Corporation  
Notes to the financial statements  
*(Expressed in millions of Renminbi, unless otherwise stated)*

**12 AMOUNTS DUE FROM SUBSIDIARY**

	<u>2006</u>	<u>2005</u>
CCB International Group Holdings Limited	9,800	-

This represents loan to CCB International Group Holdings Limited (“CCB International”). CCB International on-lend the funds to its subsidiary CCB Overseas Holdings Limited (“CCB Overseas”) for payment of the costs and related expenses arising from acquisition of China Construction Bank (Asia) Corporation Limited (“CCB Asia”), formerly known as Bank of America (Asia) Limited (“BOA Asia”). The loan is unsecured, interest free has no fixed term of repayment.

**13 LONG-TERM EQUITY INVESTMENTS**

	<u>2006</u>	<u>2005</u>
Investment in subsidiaries (a)		
- China Construction Bank (Asia) Limited (“CCB (Asia)”) (a)	814	618
- Sino-German Bausparkasse Corporation Limited (“Sino-German”) (a)	87	93
- CCB Principal Asset Management Co., Ltd. (“CCB Principal”) (a)	122	124
- CCB International Group Holdings Limited (“CCB International”) (b)	-	-
Subtotal	1,023	835
Other long-term equity investment	174	203
Total	1,197	1,038

(a) The financial affairs, operating results and cash flows of the subsidiaries for the year ended 31 December 2006 were not material to the Bank’s financial statements. Accordingly, the Bank did not prepare its consolidated financial statements. The Bank’s interest in these subsidiaries was accounted for using the equity accounting method.

China Construction Bank Corporation

Notes to the financial statements

*(Expressed in millions of Renminbi, unless otherwise stated)*

**13 LONG-TERM EQUITY INVESTMENTS (CONTINUED)**

- (b) The Bank set up its wholly-owned subsidiary CCB International in Hong Kong on 15 August 2006 with registered capital of HK\$ 1 million. CCB International changed its Chinese name on 9 December 2006. The Bank paid up HK\$ 1 to CCB International as at 31 December 2006.

CCB International set up its wholly-owned subsidiaries, CCB Overseas and CCB Financial Holdings Limited (“CCB Financial”), on 24 November 2006 with registered capital of HK\$ 1 million each. CCB International paid up HK\$ 1 to CCB Overseas and CCB Financial respectively as at 31 December 2006.

China Construction Bank Corporation  
Notes to the financial statements  
*(Expressed in millions of Renminbi, unless otherwise stated)*

**14 FIXED ASSETS**

	<u>Land use rights and bank premises</u>	<u>Computer equipment</u>	<u>Others</u>	<u>Total</u>
<b>Cost / valuation</b>				
As at 1 January 2006	62,498	14,735	12,443	89,676
Additions	2,958	3,998	3,372	10,328
Disposals	(525)	(841)	(1,160)	(2,526)
	<hr/>	<hr/>	<hr/>	<hr/>
As at 31 December 2006	64,931	17,892	14,655	97,478
	-----	-----	-----	-----
<b>Accumulated depreciation</b>				
As at 1 January 2005	(8,293)	(8,067)	(6,761)	(23,121)
Charge for the year	(2,096)	(2,578)	(1,804)	(6,478)
Disposals	55	809	996	1,860
	<hr/>	<hr/>	<hr/>	<hr/>
As at 31 December 2006	(10,334)	(9,836)	(7,569)	(27,739)
	-----	-----	-----	-----
<b>Allowances for impairment losses</b>				
As at 1 January 2006	(697)	(9)	(12)	(718)
Charge for the year	(40)	-	(1)	(41)
Disposals	87	1	2	90
	<hr/>	<hr/>	<hr/>	<hr/>
As at 31 December 2006	(650)	(8)	(11)	(669)
	-----	-----	-----	-----
<b>Net carrying value</b>				
As at 31 December 2006	53,947	8,048	7,075	69,070
	<hr/>	<hr/>	<hr/>	<hr/>
As at 31 December 2005	53,508	6,659	5,670	65,837
	<hr/>	<hr/>	<hr/>	<hr/>

As at 31 December 2006, ownership documentation for the Bank's premises with a net carrying value of RMB 3,442 million (2005: RMB 1,152 million) was being finalised.

As at 31 December 2006, the original cost of the fixed assets that have been fully depreciated but are still in use was RMB 7,753 million (2005: RMB 6,084 million).



China Construction Bank Corporation  
Notes to the financial statements  
*(Expressed in millions of Renminbi, unless otherwise stated)*

**15 REPOSSESSED ASSETS**

	<u>2006</u>	<u>2005</u>
Land, premises and buildings	2,760	4,527
Others	657	653
	<hr/>	<hr/>
Total	3,417	5,180
Less: Allowances for impairment losses (a)	(2,009)	(3,303)
	<hr/>	<hr/>
Net book value	1,408	1,877
	<hr/> <hr/>	<hr/> <hr/>

(a) Movements of allowances for impairment losses

	<u>2006</u>	<u>2005</u>
As at 1 January	3,303	4,446
Charge for the year	180	278
Disposals	(1,474)	(1,421)
	<hr/>	<hr/>
As at 31 December	2,009	3,303
	<hr/> <hr/>	<hr/> <hr/>

China Construction Bank Corporation  
Notes to the financial statements  
*(Expressed in millions of Renminbi, unless otherwise stated)*

**16 DEFERRED TAX**

(a) Analysed by nature

	<u>2006</u>	<u>2005</u>
Deferred tax assets	2,682	420
Deferred tax liabilities	(25)	-
	<hr/>	<hr/>
Net balance	<u>2,657</u>	<u>420</u>

(b) Movements in deferred tax

	<u>In Mainland China</u>			<u>Outside Mainland China</u>		Total deferred tax assets/ (liabilities)
	Allowances of impairment losses for loans and advances	Interest recognition for short-term debts securities	Deferral or amortization of subordinated bonds issuing costs	Fair value adjustments for securities	Fair value adjustments for securities	
As at 1 January 2005	-	(522)	(35)	231	(51)	(377)
Recognised in income statement	-	522	4	(55)	26	497
Recognised in equity	-	-	-	268	32	300
As at 31 December 2005	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	-	-	(31)	444	7	420
Recognised in income statement	2,064	-	4	-	-	2,068
Recognised in equity	-	-	-	201	(32)	169
As at 31 December 2006	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	2,064	-	(27)	645	(25)	2,657

China Construction Bank Corporation  
Notes to the financial statements  
*(Expressed in millions of Renminbi, unless otherwise stated)*

**17 OTHER ASSETS**

(a) Analysed by nature

		<u>2006</u>	<u>2005</u>
Positive fair value of derivative financial instruments	38	14,286	12,146
Others	(b)	6,830	5,254
Total		<u>21,116</u>	<u>17,400</u>

(b) Others

		<u>2006</u>	<u>2005</u>
Gross amount of others		10,593	10,506
Less: Allowances for impairment losses (c)		(3,763)	(5,252)
Net balance		<u>6,830</u>	<u>5,254</u>

(c) Movements of allowances for impairment losses

		<u>2006</u>	<u>2005</u>
As at 1 January		5,252	6,983
Charge for the year		230	14
Write-offs / write back		(1,719)	(1,745)
As at 31 December		<u>3,763</u>	<u>5,252</u>

China Construction Bank Corporation  
Notes to the financial statements  
*(Expressed in millions of Renminbi, unless otherwise stated)*

**18 DEPOSITS FROM BANKS AND NON-BANK FINANCIAL INSTITUTIONS**

	<u>2006</u>	<u>2005</u>
Deposits in Mainland China		
– Banks	17,084	13,633
– Non-bank financial institutions	197,455	112,151
	<hr/>	<hr/>
Sub-total	214,539	125,784
	<hr/>	<hr/>
Deposits outside Mainland China		
– Banks	44	605
– Non-bank financial institutions	53	-
	<hr/>	<hr/>
Sub-total	97	605
	<hr/>	<hr/>
Total	214,636	126,389
	<hr/>	<hr/>

**19 PLACEMENTS FROM BANKS AND NON-BANK FINANCIAL INSTITUTIONS**

	<u>2006</u>	<u>2005</u>
Placements in Mainland China		
– Banks	8,857	3,928
– Non-bank financial institutions	8	548
	<hr/>	<hr/>
Sub-total	8,865	4,476
	<hr/>	<hr/>
Placements outside Mainland China		
– Banks	15,051	12,848
– Non-bank financial institutions	1,990	-
	<hr/>	<hr/>
Sub-total	17,041	12,848
	<hr/>	<hr/>
Total	25,906	17,324
	<hr/>	<hr/>

China Construction Bank Corporation  
Notes to the financial statements  
*(Expressed in millions of Renminbi, unless otherwise stated)*

**20 BALANCES UNDER REPURCHASE AGREEMENTS**

	<u>2006</u>	<u>2005</u>
Amounts arising from securities sold under repurchase agreements	5,140	21,189

The above balances under repurchase agreements are secured by debt securities or discounted bills of the same value.

**21 DEPOSITS FROM CUSTOMERS**

(a) Analysed by nature

	<u>2006</u>	<u>2005</u>
Demand deposits		
– Corporate customers	1,718,721	1,447,488
– Personal customers	830,552	708,703
Sub-total of demand deposits	<u>2,549,273</u>	<u>2,156,191</u>
Time deposits		
– Corporate customers		
Time deposits maturing within 1 year	549,239	475,773
Long-term time deposits maturing within 1 year	14,538	2,323
Long-term time deposits maturing after 1 year	76,176	48,899
– Personal customers		
Time deposits maturing within 1 year	974,420	835,257
Long-term time deposits maturing within 1 year	112,344	94,286
Long-term time deposits maturing after 1 year	270,820	241,475
Sub-total of time deposits	<u>1,997,537</u>	<u>1,698,013</u>
Pledged deposits	95,420	97,501
Foreign currency structural deposits	21,869	21,476
Total	<u><u>4,664,099</u></u>	<u><u>3,973,181</u></u>

China Construction Bank Corporation  
Notes to the financial statements  
*(Expressed in millions of Renminbi, unless otherwise stated)*

**21 DEPOSITS FROM CUSTOMERS (CONTINUED)**

(b) Pledged deposits

	<u>2006</u>	<u>2005</u>
Deposit for acceptance	49,735	60,839
Deposit for guarantees	12,895	10,948
Deposit for letters of credit	10,269	7,828
Others	22,521	17,886
	<hr/>	<hr/>
Total	95,420	97,501
	<hr/> <hr/>	<hr/> <hr/>

**22 TAXES PAYABLE**

	<u>2006</u>	<u>2005</u>
Income tax	17,816	5,616
Business tax and surcharges	2,916	2,420
Others	1,158	1,031
	<hr/>	<hr/>
Total	21,890	9,067
	<hr/> <hr/>	<hr/> <hr/>

China Construction Bank Corporation  
Notes to the financial statements  
*(Expressed in millions of Renminbi, unless otherwise stated)*

**23 OTHER LIABILITIES**

	<u>2006</u>	<u>2005</u>
Salaries, welfare, staff insurance and termination costs payables	10,230	9,505
Estimated supplementary retirement benefit obligations (a)	5,889	5,621
Foreign exchange option premium payable	5,496	5,348
Payables to Jianyin (b)	5,320	5,211
Dormant accounts	4,571	2,860
Negative fair value of derivative financial instruments 38	2,522	2,490
Bond redemption payable	2,701	2,063
Litigation provisions	1,637	1,802
Payment and collection clearance account	1,462	1,333
Settlement accounts	1,285	897
Others	6,492	6,389
	<hr/>	<hr/>
Total	47,605	43,519
	<hr/> <hr/>	<hr/> <hr/>

(a) Estimated supplementary retirement benefit obligations

The Bank pays supplementary retirement benefits for its employees in Mainland China who retired on or before 31 December 2003 (“Eligible Employees”). The Bank estimates the obligations arising from the supplementary retirement benefits, which is the present value of the total estimated amount of future benefits that the Bank is committed to pay for the Eligible Employees, and recognises the obligations as provisions. The discount rate used is an approximation of the interest rate of PRC government bonds during the period for which the Bank is obligated. The Bank performs periodic assessment of its provision at each period end. If any cumulative unrecognised gains or losses exceed 10% of the present value of the obligation at the end of the period, that portion is recognised in the income statement. At the balance sheet date, the net liabilities recognised by the Bank include the above-mentioned present value of its obligation of the supplementary retirement benefits and the unrecognised cumulative gains or losses of less than 10% of the present value of the obligation at the end of each period.

China Construction Bank Corporation  
Notes to the financial statements  
*(Expressed in millions of Renminbi, unless otherwise stated)*

**23 OTHER LIABILITIES(CONTINUED)**

(a) Estimated supplementary retirement benefit obligations (continued)

- (i) Net estimated supplementary retirement benefit obligations recognised in the balance sheet are as follows:

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

- (ii) Movements in the net estimated supplementary retirement benefit obligations are as follows:

	<u>2006</u>	<u>2005</u>
As at 1 January	5,621	5,743
Payments made	(386)	(361)
Expenses recognised as staff costs in the income statement		
– interest cost	195	239
– past service costs (note)	459	-
As at 31 December	<u>5,889</u>	<u>5,621</u>

Note: The Bank raised the pension benefits for Eligible Employees in 2006. The adjustment of pension benefits results in the change of present value of the supplementary retirement benefit obligations of RMB 459 million.

- (iii) Principal actuarial assumptions are as follows:

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

The Bank's obligations in respect of the supplementary retirement benefits at the balance sheet date was reviewed by an independent actuary, Towers, Perrin, Forster & Crosby, Inc., Hong Kong, using the projected unit credit actuarial cost method.



China Construction Bank Corporation  
Notes to the financial statements  
*(Expressed in millions of Renminbi, unless otherwise stated)*

**23 OTHER LIABILITIES (CONTINUED)**

(b) Payables to Jianyin

The balance as at 31 December 2006 included a payable of RMB 5,307 million (2005: RMB 5,211 million) to Jianyin, arising from the receipt of a bill issued by the PBOC with a nominal value of RMB 21,000 million (Note 9(b)), which exceeded net advances made by CCB for the liquidation of a trust and investment company, plus the interest accrual on such excess portion.

**24 SUBORDINATED BONDS ISSUED**

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

		<u>2006</u>	<u>2005</u>
4.87% subordinated fixed rate bonds maturing in August 2014	(a)	11,140	11,140
Subordinated floating rate bonds maturing in August 2014	(b)	3,860	3,860
4.95% subordinated fixed rate bonds maturing in September 2014	(c)	8,300	8,300
Subordinated floating rate bonds maturing in December 2014	(d)	6,078	6,078
4.95% subordinated fixed rate bonds maturing in December 2014	(e)	10,622	10,622
		<hr/>	<hr/>
Total nominal value		40,000	40,000
Less: Unamortised issuance cost		(83)	(93)
		<hr/>	<hr/>
Net carrying value		39,917	39,907
		<hr/> <hr/>	<hr/> <hr/>

(a) The interest rate per annum on the subordinated fixed rate bonds is 4.87%. The Bank 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.

(b) 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 Bank 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.

China Construction Bank Corporation  
Notes to the financial statements  
*(Expressed in millions of Renminbi, unless otherwise stated)*

**24 SUBORDINATED BONDS ISSUED (CONTINUED)**

- (c) The interest rate per annum on the subordinated fixed rate bonds is 4.95%. The Bank has an option to redeem the bonds on 22 September 2009. If the bonds are not redeemed by the Bank on 22 September 2009, the interest rate will increase to 7.95% per annum for the next five years.
- (d) 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 Bank 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.
- (e) The interest rate per annum on the subordinated fixed rate bonds is 4.95%. The Bank has an option to redeem the bonds on 27 December 2009. If the bonds are not redeemed by the Bank on 27 December 2009, the interest rate will increase to 7.95% per annum for the next five years.

**25 SHARE CAPITAL**

As at 31 December 2006, the Bank's shareholding structure was as follows:

	<u>2006</u>	<u>2005</u>
Shares held by the Bank's promoters		
– Huijin	138,150	138,150
– Jianyin	20,692	20,692
– State Grid	3,000	3,000
– Shanghai Baosteel	3,000	3,000
– Yangtze Power	1,600	2,000
Shares held by the Bank's strategic investors		
– Bank of America	19,133	19,133
– Asia Financial Holdings Pte Ltd	13,207	13,207
Shares held by other third-party investors	25,907	25,507
Total	<u>224,689</u>	<u>224,689</u>

All issued shares of the Bank as at 31 December 2006 were H shares. All H shares are ordinary shares and rank pari passu with the same rights and benefits.

China Construction Bank Corporation  
Notes to the financial statements  
*(Expressed in millions of Renminbi, unless otherwise stated)*

**26 CAPITAL RESERVE**

(a) Capital reserve

Movements in capital reserve are as follows:

		Share premium	Available-for- sale securities revaluation reserve	Exchange differences	Total
As at 1 January 2005		-	(276)	-	(276)
Share premium	(b)	42,091	-	-	42,091
(Decrease) / increase during the year		-	(859)	6	(853)
Net loss realised on disposal of available- for-sale debt securities		-	312	-	312
As at 31 December 2005		42,091	(823)	6	41,274
Decrease during the year		-	(642)	(9)	(651)
Net loss realised on disposal of available- for-sale debt securities		-	229	-	229
As at 31 December 2006		42,091	(1,236)	(3)	40,852

China Construction Bank Corporation  
Notes to the financial statements  
*(Expressed in millions of Renminbi, unless otherwise stated)*

**26 CAPITAL RESERVE (CONTINUED)**

(b) Share premium

Share premium arising from the issuance of shares at prices in excess of their par value is indicated as follows:

	<u>2005</u>
Gross proceeds upon issuance of shares	74,639
Less: shares at par value	(30,459)
	<hr/>
Share premium before costs of issuing shares	44,180
Less: costs of issuing shares	(2,089)
	<hr/>
Share premium recognised in capital reserve	<u>42,091</u>

The Bank issued a total of 30,459 million ordinary shares with a par value of RMB 1 each at a total consideration of RMB 74,639 million in 2005. After accounting for interest income and costs directly associated with the share issuance, the Bank credited share premium of RMB 42,091 million to the capital reserve.

China Construction Bank Corporation  
Notes to the financial statements  
*(Expressed in millions of Renminbi, unless otherwise stated)*

**27 SURPLUS RESERVES**

Movements in surplus reserves are as follows:

		Statutory surplus reserve	Statutory public welfare fund	Total
		<u>          </u>	<u>          </u>	<u>          </u>
As at 1 January 2005		343	171	514
Profit distributions		3,991	1,996	5,987
		<u>          </u>	<u>          </u>	<u>          </u>
As at 31 December 2005		4,334	2,167	6,501
		<u>          </u>	<u>          </u>	<u>          </u>
As at 1 January 2006		4,334	2,167	6,501
Profit distributions	29(a)	4,632	-	4,632
Transfer in/(out)	(a)	2,167	(2,167)	-
		<u>          </u>	<u>          </u>	<u>          </u>
As at 31 December 2006		11,133	-	11,133
		<u>          </u>	<u>          </u>	<u>          </u>

- (a) 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 RMB 2,167 million as at 31 December 2005 to the statutory surplus reserve in accordance with Cai Qi [2006] No.67, "Notice issued by the MOF in relation to the accounting treatment of enterprise after implementation of the Company Law of the PRC", issued on 15 March 2006.

China Construction Bank Corporation  
Notes to the financial statements  
*(Expressed in millions of Renminbi, unless otherwise stated)*

**28 GENERAL RESERVE**

The general reserve as at 31 December 2006 comprises:

		<u>2006</u>	<u>2005</u>
Set up under the MOF's requirements	(a)	10,284	10,284
Set up under requirements of the Hong Kong Banking Ordinance	(b)	56	48
Set up under requirements of overseas regulatory body		1	-
As at 31 December		<u>10,341</u>	<u>10,332</u>

(a) General reserve set up under the MOF's requirements

Pursuant to "Measures on General Provision for Bad and Doubtful Debts for Financial Institutions", Cai Jin [2005] No. 49, issued by the MOF on 17 May 2005, which became effective on 1 July 2005, banks and certain non-bank financial institutions in Mainland China, including the Bank, are required to maintain a general reserve (in addition to allowance 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 in relation to general provision for bad and doubtful debts, Cai Jin [2005] No. 90 on 5 September 2005, which requires financial institutions to set aside the required general reserve within a transitional period of approximately three years, but no 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.

(b) General reserve set up under requirements of the Hong Kong Banking Ordinance

Paragraph 9 of the Seventh Schedule to the Hong Kong Banking Ordinance requires the Bank's Hong Kong Branch 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 Bank. Transfers to and from the regulatory reserve are made directly through retained earnings.

## 29 PROFIT DISTRIBUTIONS

### (a) Profit distributions for the year ended 31 December 2006

In the Board Meeting held on 13 April 2007, the Directors approved the following profit distributions for the year ended 31 December 2006 which will be submitted to the General Meeting for the approval by the shareholders:

- The Bank appropriates 10% of its profit after tax, under PRC GAAP, for the year ended 31 December 2006 to the statutory surplus reserve fund;
- 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; and
- The profit after tax for the year ended 31 December 2006, as determined under PRC GAAP or IFRS, whichever is lower, less the appropriation to statutory surplus reserve fund and the proposed cash dividend, will be appropriated to the general reserve.

### (b) Profit distributions for the year ended 31 December 2005

In the General Meeting held on 6 June 2005, the shareholders passed a resolution on the profit distribution plan for the six months ended 30 June 2005. The shareholders confirmed the following profit appropriations for the six months ended 30 June 2005 on 27 August 2005 as follows:

- RMB 23,781 million was appropriated by the Bank for the settlement of receivables from the government.
- The Bank appropriated 10% and 5% of its net profit of RMB 19,310 million, which was calculated as if no income tax exemption was granted, to the statutory surplus reserve fund and the statutory public welfare fund respectively in an aggregate amount of RMB 2,897 million; and

## 29 PROFIT DISTRIBUTIONS (CONTINUED)

(b) Profit distributions for the year ended 31 December 2005 (continued)

In the General Meeting held on 27 August 2005, the shareholders approved the following profit distributions for the year ended 31 December 2005:

- The Bank appropriates 65% of its retained earnings of RMB 480 million, which is determined under PRC GAAP, as at 30 June 2005 to the general reserve. The remaining 35% of the retained earnings, or RMB 168 million, is distributed to the five promoters in the form of cash dividend;
- The Bank appropriates 50%, 10% and 5% of its profit after tax, under PRC GAAP, for the six months ended 31 December 2005 to the general reserve, statutory surplus reserve and statutory public welfare fund respectively;
- RMB 3,100 million of the profit after tax for the period from 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 (the "special dividend") to those shareholders immediately preceding the listing date; and
- 35% of the profit after tax for the six months ended 31 December 2005, as determined under PRC GAAP or IFRS, whichever is lower, less the special dividend, will be distributed in the form of cash dividend to the Bank's shareholders as at the relevant record date.

In the preparation of the financial statements for the year ended 31 December 2005, the Bank changed its accounting policies mainly related to the measurement and recognition of financial assets, and the new accounting policies have been applied retrospectively. The change in accounting policies resulted in an increase of the Bank's retained earnings as at 31 December 2004. The Bank accordingly increased its appropriations to the statutory surplus reserve and the statutory public welfare fund by RMB 65 million and RMB 33 million respectively in 2005.

On 6 April 2006 the Directors proposed a final cash dividend of RMB 0.015 per share in respect of the year ended 31 December 2005. In the Annual General Meeting held on 15 June 2006, the shareholders approved the above 2005 final cash dividend with a total amount of RMB 3,370 million.



China Construction Bank Corporation  
Notes to the financial statements  
*(Expressed in millions of Renminbi, unless otherwise stated)*

**30 NET INTEREST INCOME**

	<u>2006</u>	<u>2005</u>
Interest income:		
Deposits with central banks	7,276	6,675
Loans and advances to customers	152,415	126,288
Deposits with banks and non-bank financial institutions	366	188
Placements with banks and non-bank financial institutions	3,250	2,751
Investments in debt securities	50,091	36,332
Balances under resale agreements	750	532
	<hr/>	<hr/>
Sub-total of interest income	214,148	172,766
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Interest expense:		
Deposits from customers		
– Corporate deposits	29,965	23,924
– Personal deposits	36,425	27,615
– Others	1,353	504
Amounts due to central banks	-	28
Deposits from banks and non-bank financial institutions	2,899	1,736
Placements from banks non-bank financial institutions	1,073	616
Subordinated bonds issued	1,883	1,850
Others	1,161	729
	<hr/>	<hr/>
Sub-total of interest expense	74,759	57,002
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Net interest income	<u>139,389</u>	<u>115,764</u>

China Construction Bank Corporation  
Notes to the financial statements  
*(Expressed in millions of Renminbi, unless otherwise stated)*

**31 FEE AND COMMISSION INCOME**

	<u>2006</u>	<u>2005</u>
Agency fees for securities, foreign currency dealing and insurance services	3,932	1,927
Bank card fees	3,836	2,618
Remittance, settlement and account management fees	2,763	2,116
Consultancy and advisory fees	1,456	848
Commission on trust business	1,215	946
Guarantee fees	636	290
Payment and collection services fees	318	246
Others	317	261
	<hr/>	<hr/>
Total	14,473	9,252
	<hr/> <hr/>	<hr/> <hr/>

**32 NET GAIN ARISING FROM DEALING SECURITIES**

	<u>2006</u>	<u>2005</u>
Net gain on debt securities dealing	41	12
Revaluation gain on investments and derivatives	98	210
Others	217	233
	<hr/>	<hr/>
Total	356	455
	<hr/> <hr/>	<hr/> <hr/>

**33 INVESTMENT INCOME**

	<u>2006</u>	<u>2005</u>
Net gain on disposal of investments	1,354	2,392
Net revaluation loss transferred from equity on disposal	(342)	(465)
Investment income arising from available-for-sale equity investments	414	494
Investment income arising from other long-term equity investments	221	198
	<hr/>	<hr/>
Total	1,647	2,619
	<hr/> <hr/>	<hr/> <hr/>

China Construction Bank Corporation  
Notes to the financial statements  
*(Expressed in millions of Renminbi, unless otherwise stated)*

**34 OPERATING AND ADMINISTRATIVE EXPENSES**

	<u>2006</u>	<u>2005</u>
Salaries, staff welfare and insurance expenses	32,109	26,871
Depreciation	6,478	6,097
Office expenses	5,903	5,674
Rent	2,473	2,238
Travelling and entertainment expenses	2,297	1,958
Maintenance	862	937
Others	6,613	5,747
	<hr/>	<hr/>
Total	56,735	49,522
	<hr/> <hr/>	<hr/> <hr/>

**35 NET NON-OPERATING INCOME/(EXPENSE)**

	<u>2006</u>	<u>2005</u>
Net gain on disposal of repossessed assets	167	217
Net gain on disposal of fixed assets	152	30
Write-off of dormant accounts	70	155
Staff termination costs	(99)	(369)
Donations	(24)	(11)
Penalties	(21)	(27)
Others	576	488
	<hr/>	<hr/>
Total	821	483
	<hr/> <hr/>	<hr/> <hr/>

**36 PROVISIONS FOR IMPAIRMENT LOSSES**

	<u>2006</u>	<u>2005</u>
Provisions for impairment losses on loans	18,098	12,981
Provisions for impairment losses on investments	213	948
Provisions for impairment losses of fixed assets, intangible assets and construction in progress	55	400
Others	(51)	204
	<hr/>	<hr/>
Total	18,315	14,533
	<hr/> <hr/>	<hr/> <hr/>

China Construction Bank Corporation  
Notes to the financial statements  
(Expressed in millions of Renminbi, unless otherwise stated)

**37 INCOME TAX**

(a) Income tax expenses

	<u>2006</u>	<u>2005</u>
Current tax	21,634	8,735
Adjustments for prior years	(212)	-
Deferred tax	(2,068)	(497)
	<hr/>	<hr/>
Total	19,354	8,238
	<hr/> <hr/>	<hr/> <hr/>

China Construction Bank Corporation  
Notes to the financial statements  
*(Expressed in millions of Renminbi, unless otherwise stated)*

**37 INCOME TAX (CONTINUED)**

(b) Reconciliation of profit before tax to income tax

	<u>2006</u>	<u>2005</u>
Profit before tax	65,676	55,341
Income tax charged at statutory tax rate of 33%	21,673	18,263
Non-deductible expenses		
– Staff costs (i)	427	403
– Impairment losses and bad debt written off	146	373
– Others	309	210
	<u>882</u>	<u>986</u>
Non-taxable income		
– Interest income from PRC government bonds	(2,790)	(2,772)
– Others	(199)	(391)
	<u>(2,989)</u>	<u>(3,163)</u>
Total	19,566	16,086
Adjustments for prior years	(212)	-
Less: Tax exemption (ii)	-	(7,848)
Income tax	<u>19,354</u>	<u>8,238</u>

(i) In accordance with an approval notice issued in March 2006 by 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.

(ii) The Bank did not have tax exemption for the year ended 31 December 2006 (2005: RMB 7,848 million).

China Construction Bank Corporation  
Notes to the financial statements  
*(Expressed in millions of Renminbi, unless otherwise stated)*

**38 DERIVATIVE FINANCIAL INSTRUMENTS**

The following tables provide an analysis of the notional amounts of derivative financial instruments of the Bank 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 derivative financial instruments indicate the volume of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

	2006				Fair value		
	Notional amounts with remaining life of				Total	Assets	Liabilities
	Less than three months	Between three months and one year	Between one year and five years	More than five years			
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
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 17(a))	(Note 23)

China Construction Bank Corporation  
Notes to the financial statements  
(Expressed in millions of Renminbi, unless otherwise stated)

**38 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)**

	2005				Fair value		
	Notional amounts with remaining life of				Total	Assets	Liabilities
	less than three months	between three months and one year	between one year and five years	more than five years			
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
	<u>23,138</u>	<u>20,324</u>	<u>35,356</u>	<u>18,728</u>	<u>97,546</u>	<u>1,855</u>	<u>1,906</u>
Currency derivatives:							
Spot	2,943	-	-	-	2,943	-	-
Forwards	44,235	32,339	1,904	-	78,478	483	394
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
	<u>78,432</u>	<u>114,652</u>	<u>183,484</u>	<u>-</u>	<u>376,568</u>	<u>10,291</u>	<u>584</u>
Total						<u>12,146</u>	<u>2,490</u>
						(Note 17(a))	(Note 23)

**39 CAPITAL ADEQUACY RATIO**

The Bank's capital and core capital adequacy ratios prepared in accordance with the guideline "Regulation Governing Capital Adequacy of Commercial Banks" [Order [2004] No.2] as promulgated by the CBRC are as follows:

	<u>2006</u>	<u>2005</u>
Total capital base after deductions (note (i))	365,463	347,244
of which: core capital after deductions (note (i))	303,226	283,444
Risk weighted assets (note (ii))	3,053,672	2,558,956
Core capital adequacy ratio (note (iii))	<u>9.93%</u>	<u>11.08%</u>
Capital adequacy ratio (note (iv))	<u>11.96%</u>	<u>13.57%</u>

Notes:

- (i) Total capital base after deductions and core capital after deductions have been deducted by the dividend declared by the Bank after balance sheet date.
- (ii) The balance of risk weighted assets included 12.5 times of the market risk capital.
- (iii) Core capital adequacy ratio is calculated by dividing the amount of core capital after deductions by risk weighted assets.
- (iv) Capital adequacy ratio is calculated by dividing the total capital base after deductions by risk weighted assets.

China Construction Bank Corporation  
Notes to the financial statements  
*(Expressed in millions of Renminbi, unless otherwise stated)*

**40 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS**

(a) Huijin

Type of legal entity:	wholly state-owned investment holding company
Legal representative:	Hu Xiaolian
Registered capital:	RMB 496,613 million
Shares directly held by the Bank:	61.48% (2005: 61.48%)
Registered address:	Beijing

Huijin is wholly owned by the PRC government and is designated to exercise the legal rights and obligations as a shareholder of the Bank and certain key financial institutions on its behalf. Huijin is established to hold certain equity investments as authorised by the State Council and does not engage in any other commercial activities.

Due to Huijin's unique nature and function, the Bank does not consider Huijin and companies controlled by Huijin as related parties of the Bank.

(b) Related parties with controlling relationships

	<u>Registered address</u>	<u>Principal activities</u>	<u>Relationship with the Bank</u>	<u>Type of legal entity</u>	<u>Authorised representatives</u>
CCB (Asia)	Hong Kong	Commercial banking and related financial services	Subsidiary	Limited liability company	Not applicable
Sino-German	Tianjin	Home mortgage loan and deposit taking business	Subsidiary	Limited liability company	Guo Shuqing
CCB Principal	Beijing	Fund management services	Subsidiary	Limited liability company	Jiang Xianzhou
CCB International	Hong Kong	Investment	Subsidiary	Limited liability company	Not applicable
CCB Overseas	Hong Kong	Investment	Subsidiary	Limited liability company	Not applicable
CCB Financial	Hong Kong	Investment	Subsidiary	Limited liability company	Not applicable
CCB Asia	Hong Kong	Commercial banking and related financial services	Subsidiary	Limited liability company	Not applicable



China Construction Bank Corporation  
Notes to the financial statements  
*(Expressed in millions of Renminbi, unless otherwise stated)*

**40 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)**

(b) Related parties with controlling relationships (continued)

(i) Paid-in capital of related parties with controlling relationships

	<u>2006</u>	<u>2005</u>
CCB (Asia)	HKD 300 million	HKD 300 million
Sino-German	RMB 150 million	RMB 150 million
CCB Principal	RMB 200 million	RMB 200 million
CCB International	HKD 1	-
CCB Overseas	HKD 1	-
CCB Financial	HKD 1	-
CCB Asia	HKD 310 million	-

(ii) Percentages of shareholding or equity interests in related parties with controlling relationships held by the Bank

	<u>2006</u>	<u>2005</u>
CCB (Asia)	100.00%	100.00%
Sino-German	75.10%	75.10%
CCB Principal	65.00%	65.00%
CCB International	100.00%	-
CCB Overseas	100.00%	-
CCB Financial	100.00%	-
CCB Asia	100.00%	-

China Construction Bank Corporation  
Notes to the financial statements  
*(Expressed in millions of Renminbi, unless otherwise stated)*

**40 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)**

(b) Related parties with controlling relationships (continued)

(iii) In the ordinary course of business, the significant transactions carried out between the Bank and related parties with controlling relationships are as follows:

		<u>2006</u>	<u>2005</u>
Interest income	(1)	89	58
Other operating income	(2)	15	16
Interest expense	(3)	15	5
Other operating expenses	(4)	15	-

The Bank is of the opinion that the above transactions were carried out in the normal course of business, with prices based on normal transaction prices, and under normal commercial terms.

(1) Interest income represents interest income arising from deposits and placements with related parties at the rates applicable.

(2) Other operating income mainly includes income from management and advisory services provided to related parties.

(3) Interest expense represents interest expense on deposits and placements from related parties at the rates applicable.

(4) Other operating expenses mainly includes expenses on management and advisory services provided by related parties.

(iv) In the ordinary course of business, balances with related parties with controlling relationships at year end are as follows:

		<u>2006</u>	<u>2005</u>
Deposits and placements			
with banks and non-bank			
financial institutions		750	1,214
Loans and advances to customers		292	-
Debt investments		1,205	728
Amounts due from subsidiaries		9,800	-
Other assets		-	1
Deposits and placements from banks			
and non-bank financial institutions		654	594
Deposits from customers		52	297
Other liabilities		502	-

**40 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)**

(c) Related parties without controlling relationships

(i) Jianyin

Jianyin is a company wholly owned by the PRC government as approved by the State Council in 2004. It has a registered capital of RMB 20,692 million and its principal activities are holding of equity investments, asset management and other business activities as approved by the relevant PRC government authorities. As at 31 December 2006, Jianyin held 9.21% (2005: 9.21%) of the issued share capital of the Bank.

In the ordinary course of business, the significant transactions carried out between the Bank and Jianyin and its subsidiaries are as follows:

		<u>2006</u>	<u>2005</u>
Interest income	(1)	26	-
Interest expense	(2)	170	6
Operating and administrative expenses	(3)	646	200
Net gain from other operations	(4)	133	50
Net non-operating income	(5)	-	3

(1) Interest income represents interest income on debt securities issued by Jianyin and its subsidiaries at the rate applicable.

(2) Interest expense represents interest expense on deposits and placements from Jianyin and its subsidiaries at the rate applicable.

(3) Operating and administrative expenses mainly represent rental expenses paid by the Bank for leasing assets, including properties and motor vehicles, owned by Jianyin and its subsidiaries, and fees for supporting services provided by Jianyin.

(4) Net gain from other operations mainly represents custody management fee income earned by the Bank for managing assets on behalf of Jianyin and its subsidiaries .

(5) Net non-operating income mainly represents income from exchanging asset with Jianyin and its subsidiaries.

During 2006, the Bank acquired fixed assets and intangible assets with net amount RMB 146 million from Jianyin and its subsidiaries (2005: Nil).

China Construction Bank Corporation  
Notes to the financial statements  
*(Expressed in millions of Renminbi, unless otherwise stated)*

**40 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)**

(c) Related parties without controlling relationships (continued)

(i) Jianyin (continued)

In the ordinary course of business, balances between the Bank and Jianyin and its subsidiaries at year end are as follows:

	<u>2006</u>	<u>2005</u>
Loans and advances to customers	46	-
Other assets	249	20
Deposits from banks and non-bank financial institutions	13,706	233
Deposits from customers	1,130	462
Other liabilities (Note 23)	5,321	5,211

(ii) Bank of America

Bank of America (“BOA”) is a bank registered in the United States of America. BOA is mainly engaged in banking, investment, assets management and other financing business. As at 31 December 2006, BOA held 8.52% (2005: 8.52%) of the issued share capital of the Bank.

In the ordinary course of business, the significant transactions carried out between the Bank and BOA are as follows:

		<u>2006</u>	<u>2005</u>
Interest income	(1)	138	28
Interest expense	(2)	2	2
Operating and administrative expenses	(3)	-	2

(1) Interest income represents interest income arising from deposits and placements with BOA and debt securities issued by BOA at rates applicable.

(2) Interest expense represents interest expense on deposits and placements from BOA at rates applicable.

(3) Operating and administrative expenses mainly represent account expenses paid by the Bank.

**40 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)**

(c) Related parties without controlling relationships (continued)

(ii) Bank of America (continued)

On 24 August 2006, the board of directors approved the acquisition of the entire share capital of BOA Asia from BOA for a consideration of HK\$9,710 million. As at 29 December 2006 ("Acquisition date"), the net fair value of the identifiable assets, liabilities and contingent liabilities of BOA Asia was HK\$8,079 million.

In the ordinary course of business, balances between the Bank and BOA at year end are as follows:

	<u>2006</u>	<u>2005</u>
Deposits with banks and non-bank financial institutions	77	153
Debt securities	3,655	-
Interest receivable	46	-
Deposits from banks and non-bank financial institutions	147	133

(iii) Directors, supervisors, key management personnel and their close related family members of the Bank and the Bank's related legal entities, as well as enterprises controlled or affected significantly by them

The Bank is of the opinion that the related transactions amounts are not material, and thus details of these transactions have not been disclosed by the Bank.

The Bank is of the opinion that the transactions carried out with the above related parties are conducted in normal course of business, with prices based on normal transaction prices, and under normal commercial terms.

China Construction Bank Corporation  
Notes to the financial statements  
*(Expressed in millions of Renminbi, unless otherwise stated)*

**41 SEGMENT REPORTING**

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

Measurement of segment assets and liabilities and segment revenues and results is based on the Bank'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.

Segment 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 include intra-branch balances and intra-branch transactions are eliminated in the preparation of the financial statements. 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.

#### 41 SEGMENT REPORTING (CONTINUED)

(a) Business segments

The Bank 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 Bank's treasury operations. The treasury enters into inter-bank money market transactions and repurchase transactions, and invests in debt securities. It also trades in debt instruments, derivative financial instruments and foreign currency for its own account. The treasury carries out customer driven derivative financial instruments, foreign currency and precious metal trading. Its function also includes the management of the Bank'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.

China Construction Bank Corporation  
Notes to the financial statements  
(Expressed in millions of Renminbi, unless otherwise stated)

**41 SEGMENT REPORTING (CONTINUED)**

(a) Business segments (continued)

	2006					
	<i>Corporate banking</i>	<i>Personal banking</i>	<i>Treasury business</i>	<i>Others and unallocated</i>	<i>Elimination</i>	<i>Total</i>
External net interest income / (expenses)	99,389	(12,453)	51,555	898	-	139,389
Internal net interest (expenses) / income	(22,253)	47,937	(24,477)	(1,207)	-	-
<b>Net interest income / (expenses)</b>	<b>77,136</b>	<b>35,484</b>	<b>27,078</b>	<b>(309)</b>	<b>-</b>	<b>139,389</b>
Net fee and commission income	5,635	7,182	580	16	-	13,413
Net gain arising from dealing securities	-	-	264	92	-	356
Investment income	-	-	234	1,413	-	1,647
Net foreign exchange (loss) / gain	-	-	(6,182)	112	-	(6,070)
Net gain / (loss) from other operations	28	18	(5)	101	-	142
Operating expenses	(30,717)	(29,545)	(3,610)	(1,835)	-	(65,707)
Operating profit	52,082	13,139	18,359	(410)	-	83,170
Net non-operating income	177	-	-	644	-	821
Profit before provisions for impairment losses	52,259	13,139	18,359	234	-	83,991
Provisions for impairment losses	(15,614)	(2,484)	-	(217)	-	(18,315)
<b>Profit after provisions for impairment losses</b>	<b>36,645</b>	<b>10,655</b>	<b>18,359</b>	<b>17</b>	<b>-</b>	<b>65,676</b>
<b>Capital expenditure</b>	<b>2,390</b>	<b>3,888</b>	<b>357</b>	<b>3,665</b>	<b>-</b>	<b>10,300</b>
<b>Segment assets</b>	<b>2,487,295</b>	<b>606,403</b>	<b>2,191,401</b>	<b>152,475</b>	<b>(19,273)</b>	<b>5,418,301</b>
<b>Segment liabilities</b>	<b>2,450,964</b>	<b>2,477,726</b>	<b>45,030</b>	<b>133,745</b>	<b>(19,273)</b>	<b>5,088,192</b>



China Construction Bank Corporation  
Notes to the financial statements  
(Expressed in millions of Renminbi, unless otherwise stated)

**41 SEGMENT REPORTING (CONTINUED)**

(a) Business segments (continued)

	2005					
	<i>Corporate banking</i>	<i>Personal banking</i>	<i>Treasury business</i>	<i>Others and unallocated</i>	<i>Elimination</i>	<i>Total</i>
External net interest income / (expenses)	85,650	(7,342)	36,504	952	-	115,764
Internal net interest (expenses) / income	(21,869)	36,875	(13,799)	(1,207)	-	-
<b>Net interest income / (expenses)</b>	<b>63,781</b>	<b>29,533</b>	<b>22,705</b>	<b>(255)</b>	<b>-</b>	<b>115,764</b>
Net fee and commission income	3,176	4,133	1,154	(17)	-	8,446
Net gain arising from dealing securities	-	-	451	4	-	455
Investment income	-	-	913	1,706	-	2,619
Net foreign exchange loss	-	-	(1,259)	(47)	-	(1,306)
Net gain from other operations	-	132	-	204	-	336
Operating expenses	(20,403)	(20,477)	(4,683)	(11,360)	-	(56,923)
Operating profit	46,554	13,321	19,281	(9,765)	-	69,391
Net non-operating income	186	-	-	297	-	483
Profit before provisions for impairment losses	46,740	13,321	19,281	(9,468)	-	69,874
Provisions for impairment losses	(11,228)	(2,258)	(9)	(1,038)	-	(14,533)
<b>Profit after provisions for impairment losses</b>	<b>35,512</b>	<b>11,063</b>	<b>19,272</b>	<b>(10,506)</b>	<b>-</b>	<b>55,341</b>
<b>Capital expenditure</b>	<b>1,503</b>	<b>3,544</b>	<b>206</b>	<b>3,511</b>	<b>-</b>	<b>8,764</b>
<b>Segment assets</b>	<b>2,240,910</b>	<b>493,493</b>	<b>1,664,996</b>	<b>213,913</b>	<b>(28,963)</b>	<b>4,584,349</b>
<b>Segment liabilities</b>	<b>2,041,994</b>	<b>2,105,639</b>	<b>73,935</b>	<b>104,165</b>	<b>(28,963)</b>	<b>4,296,770</b>

#### 41 SEGMENT REPORTING (CONTINUED)

(b) Geographical segments

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

In presenting information on the basis of geographical segments, operating income is allocated based on the location of the branches 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 Bank: 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 Bank: Guangdong Province, City of Shenzhen, Fujian Province and City of Xiamen;
- “Bohai Rim” refers to the following areas serviced by the tier-1 branches of the Bank: 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 Bank: 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 Bank: 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;
- the “Northeastern” region refers to the following areas serviced by the tier-1 branches of the Bank: Liaoning Province, Jilin Province, Heilongjiang Province and City of Dalian.

China Construction Bank Corporation  
Notes to the financial statements  
(Expressed in millions of Renminbi, unless otherwise stated)

41 SEGMENT REPORTING (CONTINUED)

(b) Geographical segments (continued)

	2006									
	<i>Yangtze River Delta</i>	<i>Pearl River Delta</i>	<i>Bohai Rim</i>	<i>Central</i>	<i>Western</i>	<i>Northeastern</i>	<i>Head office</i>	<i>Outside Mainland China</i>	<i>Elimination</i>	<i>Total</i>
External net interest income / (expenses)	24,539	10,475	14,752	14,415	14,858	4,096	54,497	1,757	-	139,389
Internal net interest (expenses) / income	6,282	7,274	9,218	6,585	6,233	3,723	(38,058)	(1,257)	-	-
<b>Net interest income / (expenses)</b>	<b>30,821</b>	<b>17,749</b>	<b>23,970</b>	<b>21,000</b>	<b>21,091</b>	<b>7,819</b>	<b>16,439</b>	<b>500</b>	<b>-</b>	<b>139,389</b>
Net fee and commission income	2,852	2,398	2,315	2,367	1,845	914	691	31	-	13,413
Net gain arising from dealing securities	37	35	11	4	10	8	159	92	-	356
Investment income	100	10	357	485	234	76	443	(58)	-	1,647
Net foreign exchange gain / (loss)	28	(3)	19	11	(3)	(1)	(6,257)	136	-	(6,070)
Net gain / (loss) from other operations	25	5	13	66	43	26	(37)	1	-	142
Operating expenses	(12,991)	(9,030)	(10,641)	(11,956)	(11,313)	(5,138)	(4,335)	(303)	-	(65,707)
<b>Operating profit</b>	<b>20,872</b>	<b>11,164</b>	<b>16,044</b>	<b>11,977</b>	<b>11,907</b>	<b>3,704</b>	<b>7,103</b>	<b>399</b>	<b>-</b>	<b>83,170</b>
Net non-operating income	199	73	64	92	426	(52)	(2)	21	-	821
Profit before provisions for impairment losses	21,071	11,237	16,108	12,069	12,333	3,652	7,101	420	-	83,991
Provisions for impairment losses	(2,314)	(1,770)	(6,950)	(3,226)	(2,134)	(1,664)	(150)	(107)	-	(18,315)
<b>Profit after provisions for impairment losses</b>	<b>18,757</b>	<b>9,467</b>	<b>9,158</b>	<b>8,843</b>	<b>10,199</b>	<b>1,988</b>	<b>6,951</b>	<b>313</b>	<b>-</b>	<b>65,676</b>
<b>Capital expenditure</b>	<b>2,247</b>	<b>1,565</b>	<b>1,647</b>	<b>1,631</b>	<b>1,405</b>	<b>631</b>	<b>1,144</b>	<b>30</b>	<b>-</b>	<b>10,300</b>
<b>Segment assets</b>	<b>1,041,317</b>	<b>797,048</b>	<b>985,677</b>	<b>829,975</b>	<b>791,787</b>	<b>376,834</b>	<b>2,353,254</b>	<b>74,084</b>	<b>(1,831,675)</b>	<b>5,418,301</b>
<b>Segment liabilities</b>	<b>1,038,581</b>	<b>796,748</b>	<b>989,869</b>	<b>831,066</b>	<b>791,764</b>	<b>378,238</b>	<b>2,019,922</b>	<b>73,679</b>	<b>(1,831,675)</b>	<b>5,088,192</b>
<b>Off-balance sheet credit commitments</b>	<b>187,232</b>	<b>95,175</b>	<b>110,860</b>	<b>96,253</b>	<b>104,593</b>	<b>27,563</b>	<b>15,026</b>	<b>20,401</b>	<b>-</b>	<b>657,103</b>

China Construction Bank Corporation  
Notes to the financial statements  
(Expressed in millions of Renminbi, unless otherwise stated)

41 SEGMENT REPORTING (CONTINUED)

(b) Geographical segments (continued)

	2005									
	<i>Yangtze River Delta</i>	<i>Pearl River Delta</i>	<i>Bohai Rim</i>	<i>Central</i>	<i>Western</i>	<i>Northeastern</i>	<i>Head office</i>	<i>Outside Mainland China</i>	<i>Elimination</i>	<i>Total</i>
External net interest income / (expenses)	21,803	8,082	13,423	11,900	12,469	2,898	44,006	1,183	-	115,764
Internal net interest (expenses) / income	4,766	6,272	7,584	5,599	5,715	3,376	(32,684)	(628)	-	-
<b>Net interest income / (expenses)</b>	<b>26,569</b>	<b>14,354</b>	<b>21,007</b>	<b>17,499</b>	<b>18,184</b>	<b>6,274</b>	<b>11,322</b>	<b>555</b>	<b>-</b>	<b>115,764</b>
Net fee and commission income	1,833	1,606	1,417	1,419	1,120	548	430	73	-	8,446
Net gain arising from dealing securities	-	-	-	-	-	-	451	4	-	455
Investment income	56	126	209	562	100	189	1,294	83	-	2,619
Net foreign exchange gain / (loss)	43	(10)	51	21	8	21	(1,393)	(47)	-	(1,306)
Net gain / (loss) from other operations	3	(15)	(117)	34	72	6	333	20	-	336
Operating expenses	(11,208)	(8,033)	(9,842)	(10,934)	(9,962)	(4,639)	(2,063)	(242)	-	(56,923)
<b>Operating profit</b>	<b>17,296</b>	<b>8,028</b>	<b>12,725</b>	<b>8,601</b>	<b>9,522</b>	<b>2,399</b>	<b>10,374</b>	<b>446</b>	<b>-</b>	<b>69,391</b>
Net non-operating income	71	118	(62)	62	221	1	52	20	-	483
Profit before provisions for impairment losses	17,367	8,146	12,663	8,663	9,743	2,400	10,426	466	-	69,874
Provisions for impairment losses	(1,796)	(2,423)	(3,235)	(2,684)	(3,212)	(960)	(215)	(8)	-	(14,533)
<b>Profit after provisions for impairment losses</b>	<b>15,571</b>	<b>5,723</b>	<b>9,428</b>	<b>5,979</b>	<b>6,531</b>	<b>1,440</b>	<b>10,211</b>	<b>458</b>	<b>-</b>	<b>55,341</b>
<b>Capital expenditure</b>	<b>1,523</b>	<b>925</b>	<b>1,242</b>	<b>1,106</b>	<b>1,093</b>	<b>555</b>	<b>2,203</b>	<b>117</b>	<b>-</b>	<b>8,764</b>
<b>Segment assets</b>	<b>863,654</b>	<b>643,197</b>	<b>857,650</b>	<b>703,969</b>	<b>684,549</b>	<b>328,658</b>	<b>1,887,510</b>	<b>66,145</b>	<b>(1,450,983)</b>	<b>4,584,349</b>
<b>Segment liabilities</b>	<b>860,461</b>	<b>642,324</b>	<b>855,814</b>	<b>703,607</b>	<b>684,500</b>	<b>328,913</b>	<b>1,606,344</b>	<b>65,790</b>	<b>(1,450,983)</b>	<b>4,296,770</b>
<b>Off-balance sheet credit commitments</b>	<b>148,964</b>	<b>67,183</b>	<b>92,659</b>	<b>93,666</b>	<b>77,747</b>	<b>32,880</b>	<b>14,279</b>	<b>13,644</b>	<b>-</b>	<b>541,022</b>

China Construction Bank Corporation  
Notes to the financial statements  
*(Expressed in millions of Renminbi, unless otherwise stated)*

**42 TRANSACTIONS ON BEHALF OF CUSTOMERS**

(a) Entrusted lending business

The Bank's entrusted lending business includes entrusted loans made under the instruction or at the direction of government agencies, corporations or individuals, and funded by entrusted funds from them. The Bank generally does not take on credit risk in relation to these transactions, but 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 Bank 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:

	<u>2006</u>	<u>2005</u>
Entrusted loans	319,266	255,012
Entrusted funds	<u>319,266</u>	<u>255,012</u>

**42 TRANSACTIONS ON BEHALF OF CUSTOMERS (CONTINUED)**

(b) Wealth management services

The Bank'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 Bank 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 fee and commission income.

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

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

	<u>2006</u>	<u>2005</u>
Investment under wealth management services (Lideying)	6,980	1,748
Funds from wealth management services (Lideying)	6,980	1,748

China Construction Bank Corporation  
Notes to the financial statements  
*(Expressed in millions of Renminbi, unless otherwise stated)*

**43 OFF-BALANCE SHEET ITEMS**

(a) Irrevocable lending businesses recorded as off-balance sheet items

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

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

The amount reflected in the table below 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.

	<u>2006</u>	<u>2005</u>
Financing guarantees	35,962	28,968
Non-financing guarantees	162,205	107,958
Letters of credit at sight	22,093	24,064
Letters of credit at usance	29,502	22,513
Acceptances	112,615	138,737
Others	6,306	20,429
	<hr/>	<hr/>
Total	368,683	342,669
	<hr/> <hr/>	<hr/> <hr/>

(b) Off-balance sheet items with contingent revenues

This represents off-balance sheet interest receivable not yet collected when loan principal or interest receivable remains overdue for more than 90 days (exclusive of 90 days).

	<u>2006</u>	<u>2005</u>
Interest receivable not yet collected	24,212	22,376
	<hr/> <hr/>	<hr/> <hr/>

#### 44 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 Bank. It arises primarily from the Bank's credit asset portfolios.

To identify, evaluate, monitor and manage credit risk, the Bank designs the necessary organisation framework, credit policies and processes required for effective credit risk management, and implements them across the whole Bank 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 Bank, 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 Bank'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 Bank may demand collateral and guarantees where appropriate. In respect of the loan portfolios, the Bank 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. |



#### 44 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

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.

(b) Market risk

Market risk is the risk of loss, in respect of the Bank'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 Bank's trading and non-trading business.

The Risk Management Department is responsible for formulating the Bank'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 Bank's risk management policies. The Treasury Department manages the Bank'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 Bank 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 Bank 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 Bank's net interest income and economic value against scenarios using stress moves in a series of market variables, and the results are regularly reviewed.

#### 44 RISK MANAGEMENT (CONTINUED)

(b) Market risk (continued)

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

(c) Interest rate risk

The Bank'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 Bank'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 Bank regularly measures interest rate sensitive repricing gap, and the impact on the Bank'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.

China Construction Bank Corporation  
Notes to the financial statements  
*(Expressed in millions of Renminbi, unless otherwise stated)*

**44 RISK MANAGEMENT (CONTINUED)**

(c) Interest rate risk (continued)

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 at the balance sheet date.

	Effective interest rate	Non-interest bearing	Less than three months	2006			Total
				Between three months and one year	Between one and five years	More than five years	
<b>Assets</b>							
Cash and deposits with central banks	1.70%	30,104	509,452	-	-	-	539,556
Deposits and placements with banks and non-bank financial institutions	3.76%	-	38,649	4,610	239	-	43,498
Balances under resale agreements	2.08%	-	33,102	269	-	-	33,371
Loans and advances to customers (note)	5.54%	-	1,173,319	1,531,655	37,779	24,679	2,767,432
Investments	2.92%	10,173	269,907	618,142	593,831	414,162	1,906,215
Other assets	-	128,229	-	-	-	-	128,229
<b>Total assets</b>	<b>4.26%</b>	<b>168,506</b>	<b>2,024,429</b>	<b>2,154,676</b>	<b>631,849</b>	<b>438,841</b>	<b>5,418,301</b>
<b>Liabilities</b>							
Amounts due to central banks	1.89%	-	21	-	-	-	21
Deposits and placements from banks and non-bank financial institutions	2.00%	-	235,619	4,673	250	-	240,542
Balances under repurchase agreements	4.17%	-	5,140	-	-	-	5,140
Deposits from customers	1.53%	36,284	3,320,954	988,706	335,113	11,838	4,692,895
Certificates of deposit issued	4.16%	-	4,514	1,443	-	-	5,957
Other liabilities	-	103,720	-	-	-	-	103,720
Subordinated bonds issued	4.72%	-	-	9,917	30,000	-	39,917
<b>Total liabilities</b>	<b>1.59%</b>	<b>140,004</b>	<b>3,566,248</b>	<b>1,004,739</b>	<b>365,363</b>	<b>11,838</b>	<b>5,088,192</b>
<b>Asset-liability gap</b>	<b>2.67%</b>	<b>28,502</b>	<b>(1,541,819)</b>	<b>1,149,937</b>	<b>266,486</b>	<b>427,003</b>	<b>330,109</b>

China Construction Bank Corporation  
Notes to the financial statements  
*(Expressed in millions of Renminbi, unless otherwise stated)*

**44 RISK MANAGEMENT (CONTINUED)**

(c) Interest rate risk (continued)

	2005						Total
	Effective interest rate	Non-interest bearing	Less than three months	Between three months and one year	Between one and five years	More than five years	
<b>Assets</b>							
Cash and deposits with central banks	1.66%	28,413	394,353	-	-	-	422,766
Deposits and placements with banks and non-bank financial institutions	2.30%	-	135,426	41,733	276	-	177,435
Balances under resale agreements	1.38%	-	70,667	500	-	-	71,167
Loans and advances to customers (note)	5.36%	86	1,026,466	1,312,722	38,971	14,981	2,393,226
Investments	2.88%	12,504	140,132	420,657	620,512	219,872	1,413,677
Other assets	-	106,078	-	-	-	-	106,078
<b>Total assets</b>	<b>4.13%</b>	<b>147,081</b>	<b>1,767,044</b>	<b>1,775,612</b>	<b>659,759</b>	<b>234,853</b>	<b>4,584,349</b>
<b>Liabilities</b>							
Amounts due to central banks	1.89%	-	21	-	-	-	21
Deposits and placements from banks and non-bank financial institutions	1.69%	-	115,278	27,814	621	-	143,713
Balances under repurchase agreements	3.19%	-	21,189	-	-	-	21,189
Deposits from customers	1.39%	40,789	2,768,914	905,529	276,494	12,799	4,004,525
Certificates of deposit issued	2.82%	-	4,198	527	704	-	5,429
Other liabilities	-	81,986	-	-	-	-	81,986
Subordinated bonds issued	4.63%	-	-	9,915	29,992	-	39,907
<b>Total liabilities</b>	<b>1.44%</b>	<b>122,775</b>	<b>2,909,600</b>	<b>943,785</b>	<b>307,811</b>	<b>12,799</b>	<b>4,296,770</b>
<b>Asset-liability gap</b>	<b>2.69%</b>	<b>24,306</b>	<b>(1,142,556)</b>	<b>831,827</b>	<b>351,948</b>	<b>222,054</b>	<b>287,579</b>

Note: For loans and advances to customers, the “Less than three months” category includes overdue amounts (net of allowances for impairment losses) of RMB 52,505 million as at 31 December 2006 (2005: RMB 68,306 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.

#### 44 RISK MANAGEMENT (CONTINUED)

(d) Currency risk

The Bank'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 Bank's overseas branches.

The Bank 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 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 RMB 8.2769. The option is exercisable in 2007 in twelve equal monthly instalments. The Bank will pay a total option premium of RMB 5,587 million to Huijin in twelve equal monthly instalments in 2007.

The option was purchased to hedge currency risk arising from the fund mentioned above. 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 Bank 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 RMB 12,058 million (2005: RMB 9,545 million), which is included in other assets (Note 17(a)). The premium payable in respect of the option is stated at its discounted value of approximately RMB 5,496 million (2005: RMB 5,348 million) as at 31 December 2006 and is included under other liabilities (Note 23).

The change in the fair value of the option recognised as net foreign exchange gain for the year ended 31 December 2006 was approximately RMB 2,365 million (2005: RMB 4,197 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 the fair value of the foreign exchange swap recognised as net foreign exchange gain for the year ended 31 December 2006 was approximately RMB 58 million (2005: net loss of RMB 46 million).

China Construction Bank Corporation  
Notes to the financial statements  
*(Expressed in millions of Renminbi, unless otherwise stated)*

**44 RISK MANAGEMENT (CONTINUED)**

(d) Currency risk (continued)

The Bank 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.

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

	2006			
	RMB	USD (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
<b>Assets</b>				
Cash and deposits with central banks	530,930	5,926	2,700	539,556
Deposits and placements with banks and non-bank financial institutions	22,124	15,582	5,792	43,498
Balances under resale agreements	33,371	-	-	33,371
Loans and advances to customers	2,647,467	83,203	36,762	2,767,432
Investments	1,583,127	302,798	20,290	1,906,215
Other assets	110,027	16,715	1,487	128,229
<b>Total assets</b>	<b>4,927,046</b>	<b>424,224</b>	<b>67,031</b>	<b>5,418,301</b>
<b>Liabilities</b>				
Amounts due to central banks	21	-	-	21
Deposits and placements from bank and non-bank financial institutions	198,884	36,289	5,369	240,542
Balances under repurchase agreements	-	3,905	1,235	5,140
Deposits from customers	4,528,839	118,121	45,935	4,692,895
Certificates of deposit issued	-	1,577	4,380	5,957
Other liabilities	98,522	4,154	1,044	103,720
Subordinated bonds issued	39,917	-	-	39,917
<b>Total liabilities</b>	<b>4,866,183</b>	<b>164,046</b>	<b>57,963</b>	<b>5,088,192</b>
<b>Net position</b>	<b>60,863</b>	<b>260,178</b>	<b>9,068</b>	<b>330,109</b>
Notional amount of hedging currency option and foreign currency swap contracts	245,621	(245,621)	-	-
Off-balance sheet credit commitment	544,886	86,620	25,597	657,103

China Construction Bank Corporation  
Notes to the financial statements  
*(Expressed in millions of Renminbi, unless otherwise stated)*

**44 RISK MANAGEMENT (CONTINUED)**

(d) Currency risk(continued)

	2005			
	RMB	USD (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
<b>Assets</b>				
Cash and deposits with central banks	416,220	4,260	2,286	422,766
Deposits and placements with banks and non-bank financial institutions	18,635	128,296	30,504	177,435
Balances under resale agreements	71,167	-	-	71,167
Loans and advances to customers	2,278,786	81,943	32,497	2,393,226
Investments	1,183,193	213,449	17,035	1,413,677
Other assets	99,815	4,928	1,335	106,078
<b>Total assets</b>	<b>4,067,816</b>	<b>432,876</b>	<b>83,657</b>	<b>4,584,349</b>
<b>Liabilities</b>				
Amounts due to central banks	21	-	-	21
Deposits and placements from bank and non-bank financial institutions	119,039	18,991	5,683	143,713
Balances under repurchase agreements	100	21,089	-	21,189
Deposits from customers	3,856,323	105,704	42,498	4,004,525
Certificates of deposit issued	-	377	5,052	5,429
Other liabilities	77,251	4,287	448	81,986
Subordinated bonds issued	39,907	-	-	39,907
<b>Total liabilities</b>	<b>4,092,641</b>	<b>150,448</b>	<b>53,681</b>	<b>4,296,770</b>
<b>Net position</b>	<b>(24,825)</b>	<b>282,428</b>	<b>29,976</b>	<b>287,579</b>
Notional amount of hedging currency option and foreign currency swap contracts	253,963	(253,963)	-	-
Off-balance sheet credit commitment	460,151	59,910	20,961	541,022

#### **44 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 Bank monitors the future cash flows to ensure that suitable levels of readily marketable assets are maintained.

At the Bank 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 Bank'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 Bank'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 Bank 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.



China Construction Bank Corporation  
Notes to the financial statements  
*(Expressed in millions of Renminbi, unless otherwise stated)*

**44 RISK MANAGEMENT (CONTINUED)**

(e) Liquidity risk (continued)

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

	2006						Total
	Undated	Overdue/ repayable on demand	Less than three months	Between three months and one year	Between one and five years	More than five years	
<b>Assets</b>							
Cash and deposits with central banks	405,715	133,841	-	-	-	-	539,556
Deposits and placements with banks and non-bank financial institutions	-	12,755	25,894	4,610	239	-	43,498
Balances under resale agreements	-	-	33,102	269	-	-	33,371
Loans and advances to customers	-	58,183	347,774	836,655	828,575	696,245	2,767,432
Investments	10,173	-	204,532	495,772	777,208	418,530	1,906,215
Other assets	86,517	1,763	17,154	18,942	3,178	675	128,229
<b>Total assets</b>	<b>502,405</b>	<b>206,542</b>	<b>628,456</b>	<b>1,356,248</b>	<b>1,609,200</b>	<b>1,115,450</b>	<b>5,418,301</b>
<b>Liabilities</b>							
Amounts due to central banks	-	21	-	-	-	-	21
Deposits and placements from banks and non-bank financial institutions	-	203,785	31,834	4,673	250	-	240,542
Balances under repurchase agreements	-	-	5,140	-	-	-	5,140
Deposits from customers	-	2,634,740	710,606	997,323	336,909	13,317	4,692,895
Certificates of deposit issued	-	-	-	1,806	4,151	-	5,957
Other liabilities	25	44,822	20,812	25,430	8,394	4,237	103,720
Subordinated bonds issued	-	-	-	-	-	39,917	39,917
<b>Total liabilities</b>	<b>25</b>	<b>2,883,368</b>	<b>768,392</b>	<b>1,029,232</b>	<b>349,704</b>	<b>57,471</b>	<b>5,088,192</b>
Long/ (short) position	502,380	(2,676,826)	(139,936)	327,016	1,259,496	1,057,979	330,109

China Construction Bank Corporation  
Notes to the financial statements  
*(Expressed in millions of Renminbi, unless otherwise stated)*

**44 RISK MANAGEMENT (CONTINUED)**

(e) Liquidity risk (continued)

	2005						Total
	Undated	Overdue/ repayable on demand	Less than three months	Between three months and one year	Between one and five years	More than five years	
<b>Assets</b>							
Cash and deposits with central banks	285,958	136,808	-	-	-	-	422,766
Deposits and placements with banks and non-bank financial institutions	-	11,379	124,047	41,733	276	-	177,435
Balances under resale agreements	-	-	70,667	500	-	-	71,167
Loans and advances to customers	-	70,978	331,656	782,781	656,733	551,078	2,393,226
Investments	12,504	-	85,089	304,744	742,534	268,806	1,413,677
Other assets	72,175	2,790	10,161	8,295	12,149	508	106,078
<b>Total assets</b>	<b>370,637</b>	<b>221,955</b>	<b>621,620</b>	<b>1,138,053</b>	<b>1,411,692</b>	<b>820,392</b>	<b>4,584,349</b>
<b>Liabilities</b>							
Amounts due to central banks	-	21	-	-	-	-	21
Deposits and placements from banks and non-bank financial institutions	-	86,133	29,145	27,814	621	-	143,713
Balances under repurchase agreements	-	-	21,189	-	-	-	21,189
Deposits from customers	-	2,226,410	582,081	904,581	277,178	14,275	4,004,525
Certificates of deposit issued	-	-	420	2,018	2,991	-	5,429
Other liabilities	-	28,081	16,449	21,059	11,697	4,700	81,986
Subordinated bonds issued	-	-	-	-	-	39,907	39,907
<b>Total liabilities</b>	<b>-</b>	<b>2,340,645</b>	<b>649,284</b>	<b>955,472</b>	<b>292,487</b>	<b>58,882</b>	<b>4,296,770</b>
Long/ (short) position	370,637	(2,118,690)	(27,664)	182,581	1,119,205	761,510	287,579

#### 44 RISK MANAGEMENT (CONTINUED)

(f) 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 Bank 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 Bank to identify and address comprehensively the operational risk inherent in all key products, activities, processes and systems. Key internal 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 centralized authorization, 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 Bank'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;
- 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.

China Construction Bank Corporation  
Notes to the financial statements  
*(Expressed in millions of Renminbi, unless otherwise stated)*

**45 CONTINGENT LIABILITIES**

*Outstanding litigations and disputes*

As at 31 December 2006, the Bank was the defendant in certain pending litigations and disputes with gross claims of RMB 2,566 million (2005: RMB 2,607 million). Provisions have been made for the estimated losses of such litigation based upon the opinions of the Bank's internal and external legal counsels (Note 23). The Bank considers that the provisions made are reasonable and adequate.

**46 COMMITMENTS**

(a) Credit commitments

At any given time the Bank has outstanding commitments to extend credit. These commitments take the form of approved loans and credit card limits. The irrevocable credit commitments provided by the Bank to customers were as follows:

	<u>2006</u>	<u>2005</u>
Loan commitments	234,610	160,932
Credit card commitments	53,810	37,421
	<hr/>	<hr/>
Total	<u>288,420</u>	<u>198,353</u>

(b) Operating lease commitments

The Bank's future minimum lease payments under non-cancellable operating leases for premises and vehicles are as follows:

	<u>2006</u>	<u>2005</u>
Within one year	1,592	1,369
After one year but within two years	1,171	1,099
After two years but within three years	897	826
After three years	2,422	2,144
	<hr/>	<hr/>
Total	<u>6,082</u>	<u>5,438</u>

China Construction Bank Corporation  
Notes to the financial statements  
*(Expressed in millions of Renminbi, unless otherwise stated)*

**46 COMMITMENTS (CONTINUED)**

(c) Capital commitments

The capital commitments authorised at the balance sheet date are as follows:

	<u>2006</u>	<u>2005</u>
Authorised but not contracted for	963	967
Contracted for but not paid up	1,972	296
	<hr/>	<hr/>
Total	<u>2,935</u>	<u>1,263</u>

(d) Underwriting and redemption of Government bonds

The Bank's unexpired underwriting commitments of PRC government bonds as at 31 December 2006 amounted to RMB 1,540 million (2005: RMB 1,980 million).

As an underwriting agent of PRC government bonds, the Bank 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 of the Bank as at each balance sheet date are as follows:

	<u>2006</u>	<u>2005</u>
Redemption obligations	92,243	102,079
	<hr/>	<hr/>

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

#### 47 POST BALANCE SHEETS EVENTS

- (a) The Bank will implement the Accounting Standards for Business Enterprises issued by the MOF on 15 February 2006 (the “ASBE”), effective 1 January 2007. The Bank will change the existing accounting policies and estimations according to the ASBE. After research and assessment, the Bank considers that the implementation of the ASBE will have no significant impact on the financial position and the result of operations of the Bank, except that the Bank’s investment in subsidiaries will be stated at cost under ASBE, which are currently accounted for using equity method in the financial statements.
- (b) 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 will be reduced from 33% to 25% effective from 1 January 2008. The Bank 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 Bank 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) On 13 April 2007, the Board 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) set out in the circular which is expected to be dispatched to shareholders on 27 April 2007, 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.

#### 48 COMPARATIVE FIGURES

Certain items in the comparable figures of 2005 have been reclassified to conform with the current year’s presentation to facilitate comparison.