

ASSETS AND LIABILITIES

The following discussion and analysis should be read in conjunction with the Accountants' Report in Appendix I, the Unaudited Interim Financial Information in Appendix II and Unaudited Supplementary Financial Information in Appendix III, in each case together with the accompanying notes. Our consolidated financial statements included in the Accountants' Report and the Unaudited Interim Financial Information have been prepared in accordance with IFRS. The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. Our actual results may differ from those anticipated in these forward-looking statements as a result of any number of factors, including those set forth in the sections headed "Forward-Looking Statements" and "Risk Factors."

ASSETS

As of June 30, 2013, our total assets amounted to RMB2,471.2 billion, an increase of 8.4% compared to RMB2,279.3 billion as of December 31, 2012. Our total assets increased by 31.5% to RMB2,279.3 billion as of December 31, 2012 from RMB1,733.3 billion as of December 31, 2011, which in turn increased by 16.8% from RMB1,484.0 billion as of December 31, 2010. The principal components of our total assets are (i) loans and advances to customers (net), (ii) financial assets held under resale agreements and placements with banks and other financial institutions (net), (iii) cash and deposits with the central bank, and (iv) investments (net), representing 43.7%, 12.9%, 12.6% and 23.2%, respectively, of our total assets as of June 30, 2013. The following table sets forth, as of the dates indicated, the components of our total assets.

	As of December 31,						As of June 30,	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)								
Total loans and advances to customers.....	778,828	52.5%	889,825	51.3%	1,023,187	44.9%	1,104,554	44.7%
Less: Allowance for impairment losses	(18,273)	(1.2)	(21,043)	(1.2)	(25,856)	(1.2)	(25,889)	(1.0)
Loans and advances to customers, net.....	<u>760,555</u>	<u>51.3</u>	<u>868,782</u>	<u>50.1</u>	<u>997,331</u>	<u>43.7</u>	<u>1,078,665</u>	<u>43.7</u>
Investments, net ⁽¹⁾	187,431	12.6	161,214	9.3	478,384	21.0	574,569	23.2
Financial assets held under resale agreements and placements with banks and other financial institutions, net.....	193,870	13.1	288,687	16.7	366,705	16.1	318,444	12.9
Cash and deposits with the central bank.....	185,745	12.5	228,666	13.2	285,478	12.5	311,708	12.6
Deposits with banks and other financial institutions, net.....	53,275	3.6	105,263	6.0	47,019	2.1	73,870	3.0
Other assets ⁽²⁾	<u>103,074</u>	<u>6.9</u>	<u>80,734</u>	<u>4.7</u>	<u>104,378</u>	<u>4.6</u>	<u>113,912</u>	<u>4.6</u>
Total assets	<u>1,483,950</u>	<u>100.0%</u>	<u>1,733,346</u>	<u>100.0%</u>	<u>2,279,295</u>	<u>100.0%</u>	<u>2,471,168</u>	<u>100.0%</u>

Notes:

- (1) Consist of debt securities (net), equity instruments (net), fixed-rate mortgages and debt securities classified as receivables.
- (2) Consist of interest receivables, positive fair value of derivatives, fixed assets, intangible assets, deferred tax assets, goodwill and other assets (including assets held for wealth management products).

ASSETS AND LIABILITIES

Loans and Advances to Customers

Loans and advances to customers are the largest component of our assets. We provide a broad range of loan products to our customers through our branch network and substantially all of such loan products are denominated in Renminbi. Our loans and advances to customers, net of the allowance for impairment losses, represented 51.3%, 50.1%, 43.7% and 43.7% of our total assets as of December 31, 2010, 2011 and 2012 and June 30, 2013, respectively.

Our total loans and advances to customers increased by 8.0% to RMB1,104,554 million as of June 30, 2013 from RMB1,023,187 million as of December 31, 2012. Our total loans and advances to customers increased by 15.0% to RMB1,023,187 million as of December 31, 2012 from RMB889,825 million as of December 31, 2011, which in turn increased by 14.3% from RMB778,828 million as of December 31, 2010. The increase from December 31, 2011 to June 30, 2013 was due to an increase in our corporate and retail loans, partially offset by a decrease in our discounted bills. The increase from December 31, 2010 to December 31, 2011 was primarily due to an increase in our corporate and retail loans.

Distribution of Loans by Business Line

The following table sets forth, as of the dates indicated, our loans and advances to customers by business line. For a description of the loan products we offer, see “Business – Our Principal Businesses.”

	As of December 31,						As of June 30,	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Corporate loans	571,232	73.3%	641,950	72.1%	699,090	68.4%	731,522	66.2%
Discounted bills	13,789	1.8	14,421	1.6	12,643	1.2	11,897	1.1
Retail loans	193,807	24.9	233,454	26.3	311,454	30.4	361,135	32.7
Total loans and advances to customers.....	<u>778,828</u>	<u>100.0%</u>	<u>889,825</u>	<u>100.0%</u>	<u>1,023,187</u>	<u>100.0%</u>	<u>1,104,554</u>	<u>100.0%</u>

Corporate Loans

Corporate loans have consistently been the largest component of our loan portfolio. Corporate loans represented 73.3%, 72.1%, 68.4% and 66.2% of our total loans and advances to customers as of December 31, 2010, 2011 and 2012 and June 30, 2013, respectively. Our corporate loans increased by 4.6% to RMB731,522 million as of June 30, 2013 from RMB699,090 million as of December 31, 2012. As of December 31, 2012, our corporate loans amounted to RMB699,090 million, an increase of 8.9% from RMB641,950 million as of December 31, 2011, which in turn increased by 12.4% from RMB571,232 million as of December 31, 2010. The overall increase from December 31, 2010 to June 30, 2013 was primarily due to the steady increase in the credit demand of our customers in line with the growth of the PRC economy.

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The following table sets forth, as of the dates indicated, our corporate loans by contract maturity.

	As of December 31,						As of June 30,	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Short-term loans ⁽¹⁾	222,875	39.0%	275,585	42.9%	401,424	57.4%	444,051	60.7%
Medium- to long-term loans ⁽²⁾	348,357	61.0	366,365	57.1	297,666	42.6	287,471	39.3
Total corporate loans	571,232	100.0%	641,950	100.0%	699,090	100.0%	731,522	100.0%

Notes:

- (1) Loans with contract maturities of one year or less.
(2) Loans with contract maturities above one year.

Our short-term corporate loans increased by 10.6% to RMB444,051 million as of June 30, 2013 from RMB401,424 million as of December 31, 2012. As of December 31, 2012, our short-term corporate loans amounted to RMB401,424 million, an increase of 45.7% from RMB275,585 million as of December 31, 2011, which in turn increased by 23.7% from RMB222,875 million as of December 31, 2010. The overall increase in our short-term corporate loans from December 31, 2010 to June 30, 2013 was primarily due to our efforts to develop our SME loan business, a substantial part of which involves short-term loans.

Our medium- to long-term corporate loans decreased by 3.4% to RMB287,471 million as of June 30, 2013 from RMB297,666 million as of December 31, 2012. As of December 31, 2012, our medium- to long-term corporate loans amounted to RMB297,666 million, a decrease of 18.8% from RMB366,365 million as of December 31, 2011, which in turn increased by 5.2% from RMB348,357 million as of December 31, 2010. As a percentage of our total corporate loans, medium- to long-term corporate loans decreased from 61.0% as of December 31, 2010 to 39.3% as of June 30, 2013, primarily due to the increased proportion to our corporate loan portfolio of our SME loans, a substantial part of which involves short-term loans.

Distribution of Corporate Loans by Industry

The following table sets forth, as of the dates indicated, the distribution of our corporate loans by industry.

	As of December 31,						As of June 30,	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Manufacturing								
Electrical machinery and equipment	6,581	1.2%	11,034	1.7%	12,614	1.8%	12,015	1.6%
Smelting and pressing of ferrous metals	30,037	5.3	35,293	5.5	32,049	4.6	29,690	4.1
Petrochemical materials and products	19,571	3.4	25,866	4.0	31,738	4.5	31,868	4.4
Coking	3,500	0.6	3,773	0.6	6,859	1.0	6,972	0.9
Smelting and pressing of non-ferrous metals	15,262	2.7	18,447	2.9	22,482	3.2	23,830	3.3
Others ⁽¹⁾	65,418	11.4	91,624	14.3	118,669	17.0	129,284	17.6
Subtotal	140,369	24.6	186,037	29.0	224,411	32.1	233,659	31.9

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	As of December 31,						As of June 30,	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Wholesale and retail								
Metal and metal ore wholesale	23,470	4.1	37,415	5.8	39,342	5.6	37,885	5.2
Coal product wholesale	6,926	1.2	10,012	1.6	12,469	1.8	15,711	2.1
Petrochemical products wholesale and retail	1,879	0.3	2,876	0.4	6,088	0.9	7,865	1.1
Others ⁽²⁾	34,773	6.1	52,415	8.2	71,691	10.2	78,837	10.8
Subtotal.....	67,048	11.7	102,718	16.0	129,590	18.5	140,298	19.2
Real estate								
Residential and commercial property development.....	32,565	5.7	30,902	4.8	30,005	4.3	38,472	5.3
Land development	24,098	4.2	32,264	5.0	36,894	5.3	36,691	5.0
Commercial property mortgage	13,638	2.4	13,080	2.0	12,954	1.8	10,486	1.4
Industrial park development	5,658	1.0	4,020	0.7	2,679	0.4	1,651	0.2
Others.....	5,357	0.9	3,810	0.6	2,937	0.4	4,182	0.6
Subtotal.....	81,316	14.2	84,076	13.1	85,469	12.2	91,482	12.5
Transportation, storage and postal services	65,122	11.4	67,427	10.5	67,628	9.7	67,291	9.2
Leasing and commercial services								
Investment and asset management	39,706	7.0	36,475	5.7	25,681	3.7	22,253	3.0
Others.....	16,245	2.8	15,341	2.4	15,094	2.1	16,288	2.2
Subtotal.....	55,951	9.8	51,816	8.1	40,775	5.8	38,541	5.2
Water, environment and public utilities management.....	67,235	11.8	42,222	6.6	32,643	4.7	29,702	4.1
Construction	13,213	2.3	22,067	3.4	32,042	4.6	40,186	5.5
Mining								
Ferrous metals	1,594	0.3	2,188	0.3	2,735	0.4	2,513	0.4
Coal mining and flotation.....	12,280	2.1	15,197	2.4	18,114	2.6	18,984	2.6
Petroleum and gas	307	0.1	322	0.1	432	0.1	852	0.1
Non-ferrous metals	5,509	1.0	6,484	1.0	5,789	0.8	4,700	0.6
Others.....	162	0.0	316	0.0	735	0.1	729	0.1
Subtotal.....	19,852	3.5	24,507	3.8	27,805	4.0	27,778	3.8
Production and supply of power, gas and water								
Electricity and heat	27,623	4.8	28,260	4.4	20,117	2.9	17,472	2.4
Gas and water.....	2,002	0.4	2,033	0.3	3,008	0.4	4,295	0.6
Subtotal.....	29,625	5.2	30,293	4.7	23,125	3.3	21,767	3.0
Others⁽³⁾	31,501	5.5	30,787	4.8	35,602	5.1	40,818	5.6
Total corporate loans	571,232	100.0%	641,950	100.0%	699,090	100.0%	731,522	100.0%

Notes:

- (1) Consist primarily of auto manufacturing, production of auto parts and components, cement, garments and textiles.
- (2) Consist primarily of trade dealership and agency, auto retail, retail of general merchandize, wholesale of grains, beans and tuber crops.
- (3) Consist primarily of agriculture, forestry, animal husbandry and fishery; accommodation and catering industry; financial industry; scientific research, technical services and geological prospecting; resident services and other services; health, social security and social welfare; and culture, sports and entertainment.

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As of June 30, 2013, the top five industries to which we provided corporate loans were (i) manufacturing, (ii) wholesale and retail, (iii) real estate, (iv) transportation, storage and postal services and (v) construction, which together represented 78.3% of our total corporate loans. As of December 31, 2011 and 2012, the top five industries to which we provided corporate loans were (i) manufacturing, (ii) wholesale and retail, (iii) real estate, (iv) transportation, storage and postal services and (v) leasing and commercial services, which together represented 76.7% and 78.3% of our total corporate loans, respectively. As of December 31, 2010, the top five industries to which we provided corporate loans were (i) manufacturing, (ii) real estate, (iii) water, environment and public utilities management, (iv) wholesale and retail and (v) transportation, storage and postal services, which together represented 73.7% of our total corporate loans.

As of June 30, 2013, loans extended to the manufacturing industry amounted to RMB233,659 million, an increase of 4.1% from RMB224,411 million as of December 31, 2012. Loans extended to the manufacturing industry increased by 20.6% to RMB224,411 million as of December 31, 2012 from RMB186,037 million as of December 31, 2011, which in turn increased by 32.5% from RMB140,369 million as of December 31, 2010. Loans extended to this industry as a percentage of our corporate loans increased to 31.9% as of June 30, 2013 from 24.6% as of December 31, 2010. The overall increases in both the amount of loans extended to the manufacturing industry and such loans as a percentage of our corporate loans during this period were primarily due to the increased credit demand of our corporate customers from this industry as a result of the continued growth of China's economy.

As of June 30, 2013, loans extended to the wholesale and retail industry amounted to RMB140,298 million, an increase of 8.3% from RMB129,590 million as of December 31, 2012. Loans extended to the wholesale and retail industry increased by 26.2% to RMB129,590 million as of December 31, 2012 from RMB102,718 million as of December 31, 2011, which in turn increased by 53.2% from RMB67,048 million as of December 31, 2010. Loans extended to this industry as a percentage of our corporate loans increased to 19.2% as of June 30, 2013 from 11.7% as of December 31, 2010. The overall increases in both the amount of loans extended to this industry and such loans as a percentage of our corporate loans during this period were primarily due to the increase in the credit demand of this industry as a result of its steady overall growth.

As of June 30, 2013, loans extended to the real estate industry amounted to RMB91,482 million, an increase of 7.0% from RMB85,469 million as of December 31, 2012. Loans extended to the real estate industry increased by 1.7% to RMB85,469 million as of December 31, 2012 from RMB84,076 million as of December 31, 2011, which in turn increased by 3.4% from RMB81,316 million as of December 31, 2010. The increase in loans extended to this industry from December 31, 2012 to June 30, 2013 was primarily due to the increased credit demand of certain borrowers in the industry. Loans extended to this industry as a percentage of our corporate loans decreased to 12.5% as of June 30, 2013 from 14.2% as of December 31, 2010, which reflected our accordance with the guidance provided by PRC government policies with respect to the real estate market during this period.

As of June 30, 2013, loans extended to the water, environment and public utilities management industry amounted to RMB29,702 million, a decrease of 9.0% from RMB32,643 million as of December 31, 2012. Loans extended to the water, environment and public utilities management industry decreased by 22.7% to RMB32,643 million as of December 31, 2012 from RMB42,222 million as of December 31, 2011, which in turn decreased by 37.2% from RMB67,235 million as of December 31, 2010. Loans extended to this industry as a percentage of our corporate loans decreased to 4.1% as of June 30, 2013 from 11.8% as of December 31, 2010. The overall decreases in both the amount of loans extended to this industry and such loans as a percentage of our corporate loans during this period were primarily due to a change in our business strategy to reduce our loans to LGFVs, including loans granted to projects in the water, environment and public utilities management industry.

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As of June 30, 2013, loans extended to the transportation, storage and postal services industry amounted to RMB67,291 million, a decrease of 0.5% from RMB67,628 million as of December 31, 2012. Loans extended to the transportation, storage and postal services industry slightly increased by 0.3% to RMB67,628 million as of December 31, 2012 from RMB67,427 million as of December 31, 2011, which in turn increased by 3.5% from RMB65,122 million as of December 31, 2010. Loans extended to this industry as a percentage of our corporate loans decreased to 9.2% as of June 30, 2013 from 11.4% as of December 31, 2010, primarily due to (i) a relative increase in loans extended to the manufacturing industry and the wholesale and retail industry due to the aforementioned factors and (ii) a change in our business strategy to reduce our loans to LGFVs, including loans granted to expressway and railway construction projects in the transportation, storage and postal services industry.

As of June 30, 2013, loans extended to the construction industry amounted to RMB40,186 million, an increase of 25.4% from RMB32,042 million as of December 31, 2012. Loans extended to the construction industry increased by 45.2% to RMB32,042 million as of December 31, 2012 from RMB22,067 million as of December 31, 2011, which in turn increased by 67.0% from RMB13,213 million as of December 31, 2010. Loans extended to this industry as a percentage of our corporate loans increased to 5.5% as of June 30, 2013 from 2.3% as of December 31, 2010. The overall increases in both the amount of loans extended to this industry and such loans as a percentage of our corporate loans during this period were primarily due to the increase in the credit demand of this industry.

As of June 30, 2013, loans extended to the leasing and commercial services industry amounted to RMB38,541 million, a decrease of 5.5% from RMB40,775 million as of December 31, 2012. Loans extended to the leasing and commercial services industry decreased by 21.3% to RMB40,775 million as of December 31, 2012 from RMB51,816 million as of December 31, 2011, which in turn decreased by 7.4% from RMB55,951 million as of December 31, 2010. Loans extended to this industry as a percentage of our corporate loans decreased to 5.2% as of June 30, 2013 from 9.8% as of December 31, 2010. Both the amount of loans extended to this industry and such loans as a percentage of our corporate loans decreased during this period primarily because, taking into account the macroeconomic conditions, regulatory requirements and our own development plans, we adjusted our loan portfolio to reduce our LGFV loans, a portion of which was classified as loans extended to the leasing and commercial services industry.

Distribution of Corporate Loans by Loan Size

The following table sets forth, as of the dates indicated, the distribution of our corporate loan exposure by loan size.

	As of December 31,						As of June 30,	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Below RMB10 million	7,379	1.3%	11,437	1.8%	18,094	2.6%	21,727	3.0%
RMB10 million (inclusive) to RMB50 million	60,684	10.6	90,813	14.1	122,035	17.5	131,836	18.0
RMB50 million (inclusive) to RMB100 million	49,489	8.7	67,559	10.5	80,650	11.5	87,494	12.0
RMB100 million (inclusive) to RMB500 million	231,857	40.6	261,472	40.7	285,394	40.8	298,457	40.8
Over RMB500 million (inclusive)	221,823	38.8	210,669	32.9	192,917	27.6	192,008	26.2
Total corporate loans	571,232	100.0%	641,950	100.0%	699,090	100.0%	731,522	100.0%

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Discounted Bills

Discounted bills represented 1.8%, 1.6%, 1.2% and 1.1%, respectively, of total loans and advances to customers, as of December 31, 2010, 2011 and 2012 and June 30, 2013.

The following table sets forth, as of the dates indicated, the distribution of our discounted bills by type.

	As of December 31,						As of June 30,	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Bank acceptance bills.....	11,734	85.1%	13,758	95.4%	11,777	93.2%	10,432	87.7%
Commercial acceptance bills.....	2,055	14.9	663	4.6	866	6.8	1,465	12.3
Total discounted bills	13,789	100.0%	14,421	100.0%	12,643	100.0%	11,897	100.0%

As of June 30, 2013, the balance of our discounted bills was RMB11,897 million, a decrease of 5.9% from RMB12,643 million as of December 31, 2012. The balance of our discounted bills decreased by 12.3% to RMB12,643 million as of December 31, 2012 from RMB14,421 million as of December 31, 2011, which in turn increased by 4.6% from RMB13,789 million as of December 31, 2010. While the balance of our total discounted bills as of June 30, 2013 decreased as compared to December 31, 2011, the average balance of our discounted bills increased by 104.5% to RMB26,638 million as at June 30, 2013 from RMB13,023 million as of December 31, 2011. The discounted bills consist of bank acceptance bills and commercial acceptance bills. The changes in the respective proportions of our bank acceptance bills and commercial acceptance bills to our total discounted bills primarily reflected our evaluation of their relative average yields and risk levels.

Retail Loans

Retail loans represented 24.9%, 26.3%, 30.4% and 32.7% of our total loans and advances to customers as of December 31, 2010, 2011 and 2012 and June 30, 2013, respectively. The following table sets forth, as of the dates indicated, our retail loans by product type.

	As of December 31,						As of June 30,	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Retail loans								
Residential and commercial mortgage loans.....	118,280	61.0%	130,215	55.8%	154,550	49.6%	171,227	47.4%
Credit card	13,000	6.7	25,346	10.8	69,611	22.4	89,496	24.8
Micro-enterprise equipment loans	43,722	22.6	49,685	21.3	41,756	13.4	36,495	10.1
Others ⁽¹⁾	18,805	9.7	28,208	12.1	45,537	14.6	63,917	17.7
Total retail loans	193,807	100.0%	233,454	100.0%	311,454	100.0%	361,135	100.0%

Note:

- (1) Primarily consist of comprehensive consumer loans, personal business loans, retail loans secured by negotiable securities and personal automobile loans.

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As of June 30, 2013, our retail loans amounted to RMB361,135 million, an increase of 16.0% from RMB311,454 million as of December 31, 2012. Our retail loans increased by 33.4% to RMB311,454 million as of December 31, 2012 from RMB233,454 million as of December 31, 2011, which in turn increased by 20.5% from RMB193,807 million as of December 31, 2010.

Residential and commercial mortgage loans have been the largest component of our retail loans from December 31, 2010 to June 30, 2013. As of June 30, 2013, our residential and commercial mortgages amounted to RMB171,227 million, an increase of 10.8% from RMB154,550 million as of December 31, 2012. Our residential and commercial mortgages increased by 18.7% to RMB154,550 million as of December 31, 2012 from RMB130,215 million as of December 31, 2011, which in turn increased by 10.1% from RMB118,280 million as of December 31, 2010. The overall increase in our residential and commercial mortgage loans from December 31, 2010 to June 30, 2013 was primarily due to the increase in new property purchases financed by mortgage loans and our streamlined loan approval process and standardized approval system for residential and commercial mortgage loans as well as our integrated customer service systems, which improved the efficiency and quality of our services to our residential and commercial loan customers. At the same time, the proportion of our residential and commercial mortgage loans in our total retail loans decreased over the period from December 31, 2010 to June 30, 2013, primarily due to (i) the reduced growth in the demand for residential and commercial mortgage loans due to the cooling-down measures implemented by the PRC government on the real estate industry and (ii) the corresponding adjustment of our product mix to allocate more resources to other more profitable retail loan products.

As of June 30, 2013, our credit card loans amounted to RMB89,496 million, an increase of 28.6% from RMB69,611 million as of December 31, 2012. Our credit card loans significantly increased by 174.6% to RMB69,611 million as of December 31, 2012 from RMB25,346 million as of December 31, 2011, which in turn increased by 95.0% from RMB13,000 million as of December 31, 2010. The rapid growth of our credit card loans from December 31, 2010 to June 30, 2013 was primarily due to (i) increases in both the number of credit cards issued and the volume of credit card transactions during this period; (ii) our efforts to develop and promote various innovative credit card products, such as the “Fortune Card” (福卡) and the “Sunshine Business Travel Card” (陽光商旅卡), which became increasingly popular among our customers; and (iii) our enhanced marketing efforts on credit cards which were tailor-made for our high-end individual customers.

As of June 30, 2013, our micro-enterprise equipment loans amounted to RMB36,495 million, a decrease of 12.6% from RMB41,756 million as of December 31, 2012, which in turn decreased by 16.0% from RMB49,685 million as of December 31, 2011. The decrease in our micro-enterprise equipment loans from December 31, 2011 to June 30, 2013 was primarily due to (i) a decline in demand for micro-enterprise equipment loans and (ii) the enhanced level of prudence in granting micro-enterprise equipment loans for the purpose of risk control. Our micro-enterprise equipment loans amounted to RMB49,685 million as of December 31, 2011, an increase of 13.6% from RMB43,722 million as of December 31, 2010. The growth of our micro-enterprise equipment loans from December 31, 2010 to December 31, 2011 was in line with the overall growth of our total retail loans for this period.

As of June 30, 2013, the balance of our other retail loans amounted to RMB63,917 million, an increase of 40.4% from RMB45,537 million as of December 31, 2012, which in turn increased by 61.4% from RMB28,208 million as of December 31, 2011 and further increased by 50.0% from RMB18,805 million as of December 31, 2010. The overall increase from December 31, 2010 to June 30, 2013 was primarily due to the rapid growth in our comprehensive consumer loans and personal business loans.

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Distribution of Loans by Geographical Region

We classify our loans geographically based on the location of the branch from which the loans originated. Our branches generally grant loans to borrowers located in the geographical areas where the lending branch is located. The following table sets forth, as of the dates indicated, the distribution of our loan portfolio by geographical region. For definitions of our geographical regions, see “Definitions and Conventions.”

	As of December 31,						As of June 30,	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Head Office ⁽¹⁾	13,023	1.7%	25,367	2.8%	69,629	6.8%	89,513	8.1%
Yangtze River Delta	209,058	26.8	222,276	25.0	243,573	23.8	248,648	22.5
Bohai Rim	170,906	21.9	193,992	21.8	199,896	19.5	205,841	18.6
Central China	113,774	14.6	132,157	14.9	152,891	14.9	168,376	15.2
Western China	113,487	14.6	132,947	14.9	151,357	14.8	167,649	15.2
Pearl River Delta	112,268	14.4	126,963	14.3	144,859	14.2	154,269	14.0
Northeastern China	46,312	6.0	56,123	6.3	60,982	6.0	67,208	6.1
Hong Kong	-	-	-	-	-	-	3,050	0.3
Total loans and advances to customers	<u>778,828</u>	<u>100.0%</u>	<u>889,825</u>	<u>100.0%</u>	<u>1,023,187</u>	<u>100.0%</u>	<u>1,104,554</u>	<u>100.0%</u>

Note:

(1) Loans originated from our Head Office mainly include credit card loans provided by our credit card center.

In recent years, our lending business mainly focused on the economically developed Yangtze River Delta, Bohai Rim and Pearl River Delta regions. As of June 30, 2013, the aggregate loans and advances to customers in these three regions amounted to RMB608,758 million, an increase of 3.5% from RMB588,328 million as of December 31, 2012. The aggregate loans and advances to customers in these three regions increased by 8.3% to RMB588,328 million as of December 31, 2012 from RMB543,231 million as of December 31, 2011, which in turn increased by 10.4% from RMB492,232 million as of December 31, 2010. As of December 31, 2010, 2011 and 2012 and June 30, 2013, the aggregate loans and advances to customers in these three regions represented 63.1%, 61.1%, 57.5% and 55.1% of our total loans and advances to customers, respectively. The decrease in such percentages reflected (i) our efforts to improve our lending business in Central China and Western China in response to the PRC government’s policies to promote the economic development in these two regions and (ii) the rapid growth of the economies of Central and Western China, resulting in the expansion of our customer base in these regions.

As of June 30, 2013, the loans provided by our Head Office amounted to RMB89,513 million, an increase of 28.6% from RMB69,629 million as of December 31, 2012. The loans provided by our Head Office increased by 174.5% to RMB69,629 million as of December 31, 2012 from RMB25,367 million as of December 31, 2011, which in turn increased by 94.8% from RMB13,023 million as of December 31, 2010. As of December 31, 2010, 2011 and 2012 and June 30, 2013 the loans provided by our Head Office represented 1.7%, 2.8%, 6.8% and 8.1% of our total loans and advances to customers, respectively. The increases over the period primarily reflected the growth in our credit card loans, which constituted the main component of the loans provided by our Head Office.

Distribution of Loans by Collateral

Loans secured by mortgages, pledges or guarantees represented, in aggregate, 69.2%, 68.9%, 69.4% and 70.4% of our total loans and advances to customers as of December 31, 2010, 2011 and 2012 and June 30, 2013, respectively. The following table sets forth, as of the dates indicated, the distribution of our loan portfolio by type of collateral.

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	As of December 31,						As of June 30,	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Mortgage loans ⁽¹⁾⁽²⁾	277,293	35.6%	311,601	35.0%	355,951	34.8%	398,818	36.1%
Pledge loans ⁽¹⁾⁽³⁾	61,908	8.0	80,038	9.0	86,221	8.4	100,002	9.1
Guaranteed loans	199,421	25.6	221,737	24.9	268,050	26.2	278,746	25.2
Unsecured loans	240,206	30.8	276,449	31.1	312,965	30.6	326,988	29.6
Total loans and advances to customers.....	<u>778,828</u>	<u>100.0%</u>	<u>889,825</u>	<u>100.0%</u>	<u>1,023,187</u>	<u>100.0%</u>	<u>1,104,554</u>	<u>100.0%</u>

Notes:

- (1) Represent the total amount of loans wholly or partly secured by collateral in each category.
- (2) Represent security interests in certain assets, such as buildings, land use rights, machines, equipment and vehicles, without taking possession.
- (3) Represent security interests in certain assets, such as movable assets, certificates of deposits, financial instruments (including discounted bills), intellectual property rights and rights to future cash flows, by taking possession of or registering against such assets.

From December 31, 2010 to June 30, 2013, the amount of each of the four types of loans as set forth in the table above experienced steady growth and the proportion of each of these four types of loans in our total loans and advances to customers remained largely stable.

Borrower Concentration

In accordance with applicable PRC banking laws and regulations, we are subject to a loan balance limit of 10% of our regulatory capital to any single-borrower. The following table sets forth, as of June 30, 2013, our loan balance to our ten largest single-borrowers, all of which were classified as performing loans at that date.

As of June 30, 2013			
Industry	Amount	% of total loans	% of regulatory capital ⁽¹⁾
(in millions of RMB, except percentages)			
Borrower A	Transportation, storage and postal services	6,482	0.6%
Borrower B	Real estate	4,980	0.5
Borrower C	Public administration and social organization	3,906	0.4
Borrower D	Real estate	3,473	0.3
Borrower E	Transportation, storage and postal services	3,430	0.3
Borrower F	Leasing and commercial services	3,049	0.3
Borrower G	Real estate	2,650	0.2
Borrower H	Real estate	2,650	0.2
Borrower I	Transportation, storage and postal services	2,610	0.2
Borrower J	Wholesale and retail	2,508	0.2
Total.....		<u>35,738</u>	<u>3.2%</u>

Note:

- (1) Represents loan balance as a percentage of our regulatory capital. For the calculation of our regulatory capital as of June 30, 2013, see “Financial Information – Capital Resources – Capital Adequacy.”

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In accordance with applicable PRC banking guidelines, we are subject to a credit exposure of 15% of our regulatory capital to any single group-borrower. The following table sets forth, as of June 30, 2013, our credit exposure to our ten largest single group-borrowers.

As of June 30, 2013				
	Industry	Amount	% of total loans	% of regulatory capital ⁽¹⁾
(in millions of RMB, except percentages)				
Group A	Production and supply of power, gas and water	11,657	1.0%	7.5%
Group B	Transportation, storage and postal services	10,627	1.0	6.8
Group C	Manufacturing	9,491	0.9	6.1
Group D	Production and supply of power, gas and water	9,068	0.8	5.8
Group E	Construction	8,775	0.8	5.6
Group F	Construction	7,942	0.7	5.1
Group G	Construction	7,381	0.7	4.8
Group H	Wholesale and retail	7,265	0.7	4.7
Group I	Wholesale and retail	7,021	0.6	4.5
Group J	Transportation, storage and postal services	6,994	0.6	4.5
Total		<u>86,221</u>	<u>7.8%</u>	<u>55.4%</u>

Note:

- (1) Represents credit exposure as a percentage of our regulatory capital. For the calculation of our regulatory capital as of June 30, 2013, see “Financial Information – Capital Resources – Capital Adequacy.”

Maturity Profile of Loan Portfolio

The following table sets forth, as of June 30, 2013, our loan portfolio by remaining maturity.

As of June 30, 2013						
	Due within 3 months or less	Due over 3 months up to 12 months	Due between 1 to 5 years	Due more than 5 years	Overdue ⁽¹⁾ / Repayment on demand	Total
(in millions of RMB)						
Corporate loans						
Short-term loans	146,316	288,621	–	–	9,114	444,051
Medium- to long-term loans ...	12,594	61,545	148,746	63,676	910	287,471
Subtotal	<u>158,910</u>	<u>350,166</u>	<u>148,746</u>	<u>63,676</u>	<u>10,024</u>	<u>731,522</u>
Discounted bills						
Bank acceptance bills	5,015	5,169	–	–	248	10,432
Commercial acceptance bills ..	358	1,097	–	–	10	1,465
Subtotal	<u>5,373</u>	<u>6,266</u>	<u>–</u>	<u>–</u>	<u>258</u>	<u>11,897</u>
Retail loans						
Residential and commercial mortgage loans	2,516	7,823	42,897	115,879	2,112	171,227
Credit card	–	–	–	–	89,496	89,496
Micro-enterprise equipment loans	5,087	12,728	14,100	–	4,580	36,495
Others ⁽²⁾	9,594	32,509	15,120	5,466	1,228	63,917
Subtotal	<u>17,197</u>	<u>53,060</u>	<u>72,117</u>	<u>121,345</u>	<u>97,416</u>	<u>361,135</u>
Total loans and advances to customers	<u>181,480</u>	<u>409,492</u>	<u>220,863</u>	<u>185,021</u>	<u>107,698</u>	<u>1,104,554</u>

Notes:

- (1) Overdue loans represent loans where at least part of the principal and/or interest were overdue for one day or more.
(2) Consist primarily of comprehensive consumer loans, personal business loans, retail loans secured by negotiable securities and personal automobile loans.

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Loan Interest Rate Profile

Interest rates have historically been highly regulated in China, but in the past few years they have been gradually liberalized. In July 2013, the lower limit on interest rates for RMB-denominated loans was removed, except with respect to residential mortgage loans, for which the lower limit is 70% of the PBOC benchmark lending interest rate for the first residential property purchased by a PRC family, and 110% of the PBOC benchmark lending interest rate for the second and any subsequent residential property purchase. We generally set floating interest rates on loans with a maturity of longer than one year. Only a small portion of such loans have fixed interest rates. We generally set fixed interest rates on loans with a maturity of one year or less. The interest rates on a small portion of such loans are reset on the next day or the first day of the month or quarter following the date of the change in the applicable benchmark interest rates. For details of the interest rates on loans, please refer to the section headed “Supervision and Regulation – PRC Banking Supervision and Regulation – Pricing of products and services.”

Asset Quality of Our Loans and Advances to Customers

We measure and monitor the asset quality of our loan portfolio through our loan classification system. We classify our loans using a five-category loan classification system, which complies with the CBRC’s guidelines. See “Supervision and Regulation – PRC Banking Supervision and Regulation – Loan Classification, Allowance and Write-offs – Loan Classification.”

Loan Classification Criteria

In determining the classification of our loan portfolio, we apply a series of criteria derived from the CBRC guidelines. These criteria are designed to assess the likelihood of repayment by the borrower and the collectability of principal and interest on the loan. Our loan classification criteria focus on the following elements, where applicable: (i) repayment ability of the borrower, which depends on the cash flow, financial condition of the borrower as well as other non-financial factors that may affect the ability and willingness to pay; (ii) repayment record of the borrower; (iii) repayment willingness of the borrower; (iv) profitability of the project; (v) collateral on the loan; (vi) legal liabilities on loan repayment; and (vii) our credit management policy.

Corporate Loans and Discounted Bills

As mentioned above, our loan classification criteria refer to the process by which loans are categorized into different classes based on the degrees of risks. The degrees of risks of our corporate loans and discounted bills are assessed mainly by analyzing the repayment ability and repayment willingness of borrowers, any guarantee provided and the credit management requirement of our Bank. The primary repayment source and the secondary repayment source will be assessed comprehensively to determine the possibility of recovering both the principal and interest of loans on schedule. Prompt adjustments will be made to the classification of loan risks, mainly based on changes in the degree of risks associated with the loans. In applying the criteria mentioned above for classification of our loans, we will also consider the time overdue for principal and interest payment and other factors. The criteria for loan classification are detailed below:

Normal: This category refers to loans where the borrowers can perform the contracts in a normal manner and there is no sufficient reason to doubt that the borrowers may fail to repay their loans according to the relevant repayment schedules. Loans of the normal class usually have the following characteristics:

- The production and operation activities of the borrower are normal. The operational efficiency is good. The financial management is in order. The structure of the principal financial indicators and cash flow are reasonable;
- The borrower has a strong will to make repayment, has been repaying the principal and interest in a normal manner and has good credit record;
- No substantial warning signal has arisen from the borrower;

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- The major shareholder, senior management and organization structure of the borrower did not change in a way that may be adverse to loan repayment;
- The guarantee provided (if applicable) is complete and valid; the operating activities and the financial condition of the guarantor are normal;
- The credit files and important documents with respect to our borrowers are kept in good order; and
- The borrower's loan repayment history is normal.

Special Mention: This category refers to loans where the borrowers have the ability to repay the principal and interest, but some factors may result in an adverse effect on repayment. Loans bearing one of the following characteristics are classified as no higher than the special mention category:

- The borrower defaults on the payment of interest and/or principal, or, in the case of installment loans, there is a late payment or we have to make an advance for the installment;
- The borrower or the guarantor incurred an adverse change which will obviously affect the repayment of loans;
- There is a material adverse change in a major shareholder, affiliated enterprise or the parent (or a subsidiary) of the borrower;
- The borrower fails to use the loan for the agreed purposes;
- The credit file is incomplete or any important document is lost, which has a material adverse effect on the legal validity of our claim;
- A loan disbursement has been made in contravention to any relevant law, regulation or credit approval procedure;
- The asset collateralized (or pledged) as security has an adverse change which may obviously affect the repayment of loans; and
- There is any other warning signal which may obviously affect the repayment of loans.

Substandard: This category refers to loans where the borrowers have obvious problems in their repayment ability, the borrowers cannot repay the principal and/or interest solely from their normal operating income and loss may be incurred even if the security is enforced. Generally, the expected losses of principal and interest in these loans are no more than 60%. Loans with one of the following characteristics are classified as no higher than the substandard category:

- A loan in respect of which the borrower has defaulted on the payment of interest and/or principal, or there is a late payment in installment, or we have to make an advance for the installment, for a period of 91 days to one year (inclusive) in each case; and
- We have initiated litigation to recover the loan.

Doubtful: This category refers to loans where the borrowers cannot repay the principal and interest in full and significant loss on the loan will most likely be incurred even if the security is enforced. Generally, the expected losses of principal and interest in these loans are no more than 90%. Loans with one of the following characteristics are classified as no higher than the doubtful category:

- There is a default on the payment of interest and/or principal, or there is a late payment in installment, or we have to make an advance for the installment, for a period of more than one year in each case;
- The borrower has become seriously insolvent, has suffered from heavy operating loss, or is in serious shortage of cash flow; and
- Substantial loss on the loan will be incurred, but the amount of loss can not yet be determined due to the existence of various factors such as a restructuring of the borrower, a merger, a disposal of the asset collateralized (or pledged) as security, pending litigation or an enforcement which is not yet complete and other factors.

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Loss: This category refers to loans where neither the principal nor the interest can be recovered after taking all possible measures and going through all necessary legal procedures. The expected losses of principal and interest in these loans are 90% – 100%. Loans with one of the following characteristics are classified in the loss category:

- A loan which cannot be repaid in full by the borrower (and the guarantor, if applicable) after the borrower (and the guarantor, if applicable) has declared bankruptcy pursuant to law;
- A loan the full repayment of which has been confirmed to be impossible because, despite the continuing legal personality of the borrower, the production and operating activities of the borrower has ceased; the borrower has become dormant and there is a slim chance that its operations will resume;
- A loan the full or partial repayment of which has been confirmed to be impossible since the borrower has suffered from a serious natural calamity or accident, and has suffered substantial loss which is not covered by insurance, or a loan which cannot be repaid in full after insurance compensation;
- A loan the full repayment of which has been confirmed to be impossible because the legal personality of the borrower has been rescinded, or the borrower has been closed or dissolved, or its legal personality has been terminated;
- A loan which cannot be recovered by us because both the borrower and the guarantor do not have any property on which the lender could raise a claim, and the court has ruled that the enforcement be ended;
- An overdue loan which has been written off by the State Council after verification as a special case; and
- Other loans which are under the process of write-off after verification and have been reported to our Head Office.

Retail Loans

In applying the loan classification criteria to retail loans, we primarily consider the length of time by which payments of principal or interest are overdue, based on which our retail loans are classified by our retail loan management system. We can re-classify a loan considering additional factors based on information collected in the post-disbursement monitoring process.

The following table sets forth the length of time by which payment of principal or any interest is overdue by the five-category loan classification for our retail loans.

	Overdue days	
	Non-credit Card	Credit Card
Normal.....	0	0-30
Special mention	1-90	31-90
Substandard.....	91-360	91-120
Doubtful.....	361-540	121-180
Loss	541 and above	181 and above

Distribution of Loans by Loan Classification

The following table sets forth, as of the dates indicated, the distribution of our loan portfolio by the five-category loan classification. Under our five-category loan classification system, our non-performing loans are classified as substandard, doubtful or loss, as applicable.

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	As of December 31,						As of June 30,	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Normal	759,968	97.5%	874,566	98.3%	1,001,284	97.9%	1,076,739	97.5%
Special mention.....	13,031	1.7	9,532	1.1	14,290	1.4	18,974	1.7
Subtotal	<u>772,999</u>	<u>99.2</u>	<u>884,098</u>	<u>99.4</u>	<u>1,015,574</u>	<u>99.3</u>	<u>1,095,713</u>	<u>99.2</u>
Substandard.....	484	0.1	1,229	0.1	3,431	0.3	4,329	0.4
Doubtful.....	2,344	0.3	1,881	0.2	1,975	0.2	3,114	0.3
Loss	3,001	0.4	2,617	0.3	2,207	0.2	1,398	0.1
Subtotal	<u>5,829</u>	<u>0.8</u>	<u>5,727</u>	<u>0.6</u>	<u>7,613</u>	<u>0.7</u>	<u>8,841</u>	<u>0.8</u>
Total loans and advances to customers.....	<u>778,828</u>	<u>100.0%</u>	<u>889,825</u>	<u>100.0%</u>	<u>1,023,187</u>	<u>100.0%</u>	<u>1,104,554</u>	<u>100.0%</u>
NPL ratio		<u>0.75%</u>		<u>0.64%</u>		<u>0.74%</u>		<u>0.80%</u>

The following table sets forth, as of the dates indicated, the distribution of our loans by business line and by the five-category loan classification.

	As of December 31,						As of June 30,	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Corporate loans								
Normal	557,529	71.5%	631,151	70.9%	685,148	67.0%	713,998	64.7%
Special mention.....	8,974	1.2	6,102	0.7	7,929	0.8	10,846	1.0
Substandard.....	170	0.0	928	0.1	2,912	0.3	3,563	0.3
Doubtful.....	2,206	0.3	1,757	0.2	1,643	0.2	2,549	0.2
Loss	2,353	0.3	2,012	0.2	1,458	0.1	566	0.0
Subtotal	<u>571,232</u>	<u>73.3</u>	<u>641,950</u>	<u>72.1</u>	<u>699,090</u>	<u>68.4</u>	<u>731,522</u>	<u>66.2</u>
NPL ratio ⁽¹⁾		0.83%		0.73%		0.86%		0.91%
Discounted bills								
Normal	13,674	1.8	14,371	1.6	12,643	1.2	11,887	1.1%
Special mention.....	115	0.0	-	-	-	-	10	0.0
Substandard.....	-	-	50	0.0	-	-	-	-
Doubtful.....	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Subtotal	<u>13,789</u>	<u>1.8</u>	<u>14,421</u>	<u>1.6</u>	<u>12,643</u>	<u>1.2</u>	<u>11,897</u>	<u>1.1%</u>
NPL ratio ⁽¹⁾		-		0.35%		-		-
Retail loans								
Normal	188,765	24.2	229,044	25.8	303,493	29.7	350,854	31.7%
Special mention.....	3,942	0.5	3,430	0.4	6,361	0.6	8,118	0.7
Substandard.....	314	0.1	251	0.0	519	0.0	766	0.1
Doubtful.....	138	0.0	124	0.0	332	0.0	565	0.1
Loss	648	0.1	605	0.1	749	0.1	832	0.1
Subtotal	<u>193,807</u>	<u>24.9</u>	<u>233,454</u>	<u>26.3</u>	<u>311,454</u>	<u>30.4</u>	<u>361,135</u>	<u>32.7</u>
NPL ratio ⁽¹⁾		0.57%		0.42%		0.51%		0.60%
Total loans and advances to customers.....	<u>778,828</u>		<u>889,825</u>		<u>1,023,187</u>		<u>1,104,554</u>	
NPL ratio⁽²⁾		<u>0.75%</u>		<u>0.64%</u>		<u>0.74%</u>		<u>0.80%</u>

Notes:

- (1) Calculated by dividing non-performing loans in each category by total loans and advances in that category.
- (2) Calculated by dividing total non-performing loans by total loans and advances to customers.

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As of June 30, 2013, our total non-performing loans amounted to RMB8,841 million, an increase of 16.1% from RMB7,613 million as of December 31, 2012, while the NPL ratio increased to 0.80% as of June 30, 2013 from 0.74% as of December 31, 2012. As of December 31, 2012, our total non-performing loans amounted to RMB7,613 million, an increase of 32.9% from RMB5,727 million as of December 31, 2011, while the NPL ratio increased to 0.74% as of December 31, 2012 from 0.64% as of December 31, 2011. The increase in our NPL ratio from December 31, 2011 to June 30, 2013 primarily reflected the negative impact of the volatility of macroeconomic conditions during this period. Our total non-performing loans decreased by 1.7% to RMB5,727 million as of December 31, 2011 from RMB5,829 million as of December 31, 2010, while the NPL ratio decreased to 0.64% as of December 31, 2011 from 0.75% as of December 31, 2010. The decrease in our NPL ratio from December 31, 2010 to December 31, 2011 was primarily due to a decrease in the amount of our non-performing loans coupled with an increase in the amount of our total loans and advances to customers during this period.

As of June 30, 2013, our corporate loans classified as “special mention” increased by 36.8% to RMB10,846 million from RMB7,929 million as of December 31, 2012. As of June 30, 2013, our corporate loans classified as “substandard” increased by 22.4% to RMB3,563 million from RMB2,912 million as of December 31, 2012. As of December 31, 2012, our corporate loans classified as “special mention” increased by 29.9% to RMB7,929 million from RMB6,102 million as of December 31, 2011. As of December 31, 2012, our corporate loans classified as “substandard” significantly increased by 213.8% to RMB2,912 million from RMB928 million as of December 31, 2011. The increase in the balance of corporate loans classified as “special mention” and “substandard” from December 31, 2011 to June 30, 2013 was primarily due to the deterioration in the financial condition and the repayment ability of certain borrowers as a result of the impact of the macroeconomic conditions during this period. As of December 31, 2011, our corporate loans classified as substandard amounted to RMB928 million, an increase of 445.9% from RMB170 million as of December 31, 2010. Such increase was primarily due to the downgrade of certain corporate loans to “non-performing” from “normal” or “special mention” as the financial condition of the borrowers deteriorated and their repayment ability was impaired during this period under the impact of the macroeconomic volatility and the economic downturn experienced in Europe and the United States. Our non-performing corporate loans are classified into the categories of “substandard,” “doubtful” and “loss” primarily on the basis of assessing the expected loss rate of the loans. As the expected loss rate of the abovementioned loans were relatively low, these loans were classified as “substandard,” resulting in the increase in the amount of our substandard corporate loans during this period.

As of June 30, 2013, our retail loans classified as “special mention” increased by 27.6% to RMB8,118 million from RMB6,361 million as of December 31, 2012, which in turn increased by 85.5% from RMB3,430 million as of December 31, 2011. The increase in our retail loans classified as “special mention” from December 31, 2011 to June 30, 2013 was primarily due to the growth in the overall scale of retail loans and the downgrading of certain micro-enterprise equipment loans to the category of “special mention” as a result of delay in payment by the borrowers who had been affected by macroeconomic conditions.

The following table sets forth, as of the dates indicated, the distribution of our loans classified as special mention by the type of collateral.

	As of December 31,						As of June 30,	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Mortgage loans	5,374	41.2%	3,665	38.4%	6,514	45.6%	9,515	50.2%
Pledge loans	868	6.7	253	2.7	1,383	9.7	1,765	9.3
Guaranteed loans	5,626	43.2	4,507	47.3	4,064	28.4	6,266	33.0
Unsecured loans	1,163	8.9	1,107	11.6	2,329	16.3	1,428	7.5
Total	13,031	100.0%	9,532	100.0%	14,290	100.0%	18,974	100.0%

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Changes in the Asset Quality of Our Corporate Loan Portfolio

The following table sets forth, between the dates indicated, the changes in the outstanding balance of our non-performing corporate loans.

	Amount	NPL ratio
	(in millions of RMB, except percentages)	
As of January 1, 2010	6,462	1.40%
Downgrades	39	
Upgrades	(27)	
Recoveries	(1,536)	
Write-offs	(227)	
Non-performing loans arising from newly-granted loans.....	18	
As of December 31, 2010	4,729	0.83%
Downgrades	808	
Upgrades	-	
Recoveries	(546)	
Write-offs	(390)	
Non-performing loans arising from newly-granted loans.....	96	
As of December 31, 2011	4,697	0.73%
Downgrades	2,760	
Upgrades	(381)	
Recoveries	(688)	
Write-offs	(547)	
Non-performing loans arising from newly-granted loans.....	172	
As of December 31, 2012	6,013	0.86%
Downgrades	2,905	
Upgrades	(68)	
Recoveries	(631)	
Write-offs	(646)	
Disposals	(895)	
Non-performing loans arising from newly-granted loans.....	-	
As of June 30, 2013	6,678	0.91%

As of December 31, 2010, 2011 and 2012 and June 30, 2013, the balance of our non-performing corporate loans was RMB4,729 million, RMB4,697 million, RMB6,013 million and RMB6,678 million, respectively, with the corresponding NPL ratio for our corporate loans of 0.83%, 0.73%, 0.86% and 0.91% as of such dates, respectively.

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Distribution of Non-performing Loans by Product Type

The following table sets forth, as of the dates indicated, our non-performing loans by product type.

	As of December 31,									As of June 30,		
	2010			2011			2012			2013		
	Amount	% of total	NPL ratio ⁽¹⁾	Amount	% of total	NPL ratio ⁽¹⁾	Amount	% of total	NPL ratio ⁽¹⁾	Amount	% of total	NPL ratio ⁽¹⁾
(in millions of RMB, except percentages)												
Corporate loans												
Short-term loans.....	2,891	49.6%	1.30%	3,286	57.4%	1.19%	4,774	62.7%	1.19%	5,994	67.8%	1.35%
Medium- to long-term loans....	1,838	31.5	0.53	1,411	24.6	0.39	1,239	16.3	0.42	684	7.7	0.24
Subtotal.....	4,729	81.1	0.83	4,697	82.0	0.73	6,013	79.0	0.86	6,678	75.5	0.91
Discounted bills.....	-	-	-	50	0.9	0.35	-	-	-	-	-	-
Retail loans												
Residential and commercial mortgage loans.....	649	11.1	0.55	496	8.7	0.38	548	7.2	0.35	572	6.5	0.33
Credit card	246	4.2	1.89	369	6.4	1.46	921	12.1	1.32	1,347	15.2	1.51
Micro-enterprise equipment loans	12	0.2	0.03	4	0.1	0.01	3	-	0.01	1	0.0	0.00
Others ⁽²⁾	193	3.4	1.03	111	1.9	0.39	128	1.7	0.28	243	2.8	0.38
Subtotal.....	1,100	18.9	0.57	980	17.1	0.42	1,600	21.0	0.51	2,163	24.5	0.60
Total non-performing loans...	5,829	100.0%	0.75%	5,727	100.0%	0.64%	7,613	100.0%	0.74%	8,841	100.0%	0.80%

Notes:

- (1) Calculated by dividing non-performing loans in each category by total loans and advances in that category.
- (2) Consist primarily of comprehensive consumer loans, personal business loans, retail loans secured by negotiable securities and personal automobile loans.

The NPL ratio of our corporate loans decreased from 0.83% as of December 31, 2010 to 0.73% as of December 31, 2011, which in turn increased to 0.86% as of December 31, 2012 and further increased to 0.91% as of June 30, 2013. The increase in the NPL ratio of our corporate loans from December 31, 2011 to June 30, 2013 reflected the cyclical fluctuation in the NPL ratio, which was primarily because, in light of the downturn of macroeconomic conditions, certain of our borrowers experienced insufficient demand for their products and services, over-capacity of production or increased operating costs, leading to their operational difficulties and the deterioration in their repayment ability. The decrease in the NPL ratio of our corporate loans from December 31, 2010 to December 31, 2011 was primarily due to the decrease in the amount of our non-performing corporate loans coupled with the increase in the total amount of our corporate loans during this period.

Our non-performing loans within discounted bills amounted to nil, RMB50 million, nil and nil as of December 31, 2010, 2011 and 2012 and June 30, 2013, respectively.

The NPL ratio of our retail loans was 0.57%, 0.42%, 0.51% and 0.60% as of December 31, 2010, 2011 and 2012 and June 30, 2013, respectively. The increase in the NPL ratio of our retail loans from December 31, 2011 to June 30, 2013 was primarily attributable to the significantly increased proportion in total retail loans of our credit card loans, which had a higher NPL ratio compared to the other retail loans. The decrease in the NPL ratio of our retail loans from December 31, 2010 to December 31, 2011 was primarily due to the decrease in the NPL ratio of our residential and commercial mortgage loans, which was the largest component of our retail loans during this period. The NPL ratio of our credit card loans decreased from 1.89% as of December 31, 2010 to 1.46% as of December 31, 2011 and further to 1.32% as of December 31, 2012, primarily due to (i) our formulation and adoption of a new risk assessment model, which enhanced our risk identification capability associated with credit cards, and (ii) the improvement of our debt collection functions. The NPL ratio of our credit card loans increased to 1.51% as of June 30, 2013 from 1.32% as of December 31, 2012, primarily due to our adjustment of our credit card business to increase the proportion of consumer credit, which carries higher interest rates and yields higher return.

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Distribution of Corporate Non-performing Loans by Industry

The following table sets forth, as of the dates indicated, the distribution of our non-performing corporate loans by industry.

	As of December 31,									As of June 30,		
	2010			2011			2012			2013		
	Amount	% of total	NPL ratio ⁽¹⁾	Amount	% of total	NPL ratio ⁽¹⁾	Amount	% of total	NPL ratio ⁽¹⁾	Amount	% of total	NPL ratio ⁽¹⁾
	(in millions of RMB, except percentages)											
Manufacturing												
Electrical machinery and equipment.....	195	4.1%	2.96%	178	3.8%	1.61%	285	4.7%	2.26%	449	6.7%	3.74%
Smelting and pressing of ferrous metals.....	105	2.2	0.35	395	8.4	1.12	146	2.4	0.46	70	1.0	0.24
Petrochemical materials and products.....	241	5.1	1.23	209	4.4	0.81	359	6.0	1.13	250	3.8	0.78
Coking.....	1	0.0	0.03	1	0.0	0.03	1	0.0	0.01	1	0.0	0.01
Smelting and pressing of non-ferrous metals.	56	1.2	0.37	56	1.2	0.30	136	2.3	0.60	139	2.1	0.58
Others.....	1,240	26.3	1.90	1,118	23.8	1.22	1,319	21.9	1.11	1,189	17.8	0.92
Subtotal.....	<u>1,838</u>	<u>38.9</u>	<u>1.31</u>	<u>1,957</u>	<u>41.6</u>	<u>1.05</u>	<u>2,246</u>	<u>37.3</u>	<u>1.00</u>	<u>2,098</u>	<u>31.4</u>	<u>0.90</u>
Wholesale and retail												
Metal and metal ore wholesale	304	6.4	1.30	281	6.0	0.75	1,136	18.9	2.89	2,400	36.0	6.33
Coal product wholesale ..	-	-	-	52	1.1	0.52	87	1.5	0.70	68	1.0	0.43
Petrochemical products wholesale and retail ..	9	0.2	0.48	-	-	-	-	-	-	-	-	-
Others.....	641	13.6	1.84	599	12.8	1.14	760	12.6	1.06	681	10.2	0.86
Subtotal.....	<u>954</u>	<u>20.2</u>	<u>1.42</u>	<u>932</u>	<u>19.9</u>	<u>0.91</u>	<u>1,983</u>	<u>33.0</u>	<u>1.53</u>	<u>3,149</u>	<u>47.2</u>	<u>2.24</u>
Transportation, storage and postal services.....	672	14.2	1.03	630	13.4	0.93	701	11.7	1.04	490	7.3	0.73
Leasing and commercial services												
Investment and assets management.....	32	0.7	0.08	32	0.7	0.09	32	0.5	0.12	32	0.5	0.14
Others.....	339	7.1	2.09	335	7.1	2.18	332	5.5	2.20	257	3.8	1.58
Subtotal.....	<u>371</u>	<u>7.8</u>	<u>0.66</u>	<u>367</u>	<u>7.8</u>	<u>0.71</u>	<u>364</u>	<u>6.0</u>	<u>0.89</u>	<u>289</u>	<u>4.3</u>	<u>0.75</u>
Real estate												
Residential and commercial property development	414	8.7	1.27	385	8.2	1.25	243	4.0	0.81	231	3.5	0.60
Others.....	37	0.8	0.69	32	0.7	0.84	29	0.5	0.99	27	0.4	0.65
Subtotal.....	<u>451</u>	<u>9.5</u>	<u>0.55</u>	<u>417</u>	<u>8.9</u>	<u>0.50</u>	<u>272</u>	<u>4.5</u>	<u>0.32</u>	<u>258</u>	<u>3.9</u>	<u>0.28</u>
Construction.....	110	2.3	0.83	123	2.6	0.56	191	3.2	0.60	145	2.2	0.36
Mining												
Coal.....	10	0.2	0.08	9	0.2	0.06	10	0.2	0.06	40	0.6	0.21
Ferrous metals	-	-	-	-	-	-	39	0.6	1.43	39	0.6	1.55
Petroleum and gas	14	0.3	4.56	-	-	-	-	-	-	-	-	-
Non-ferrous metals	38	0.8	0.69	28	0.6	0.43	-	-	-	-	-	-
Subtotal.....	<u>62</u>	<u>1.3</u>	<u>0.31</u>	<u>37</u>	<u>0.8</u>	<u>0.15</u>	<u>49</u>	<u>0.8</u>	<u>0.18</u>	<u>79</u>	<u>1.2</u>	<u>0.28</u>

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	As of December 31,									As of June 30,		
	2010			2011			2012			2013		
	Amount	% of total	NPL ratio ⁽¹⁾	Amount	% of total	NPL ratio ⁽¹⁾	Amount	% of total	NPL ratio ⁽¹⁾	Amount	% of total	NPL ratio ⁽¹⁾
	(in millions of RMB, except percentages)											
Production and supply of power, gas and water												
Electricity and heat.....	45	1.0	0.16	40	0.9	0.14	40	0.7	0.20	-	-	-
Gas and water.....	59	1.2	2.95	58	1.2	2.85	-	-	-	-	-	-
Subtotal.....	104	2.2	0.35	98	2.1	0.32	40	0.7	0.17	-	-	-
Water, environment and public utilities management	1	0.0	0.00	-	-	-	-	-	-	-	-	-
Others⁽²⁾	166	3.6	0.53	136	2.9	0.44	167	2.8	0.47	170	2.5	0.42
Total non-performing corporate loans	<u>4,729</u>	<u>100.0%</u>	<u>0.83%</u>	<u>4,697</u>	<u>100.0%</u>	<u>0.73%</u>	<u>6,013</u>	<u>100.0%</u>	<u>0.86%</u>	<u>6,678</u>	<u>100.0%</u>	<u>0.91%</u>

Notes:

- (1) Calculated by dividing non-performing loans in each category by total loans and advances in that category.
- (2) Consist primarily of agriculture, forestry, animal husbandry and fishery; accommodation and catering industry; financial industry; scientific research, technical services and geological prospecting; resident services and other services; health, social security and social welfare; and culture, sports and entertainment.

From December 31, 2010 to June 30, 2013, the NPL ratios of our corporate loans in all the industries, except for the wholesale and retail and leasing and commercial services industries, decreased. As of December 31, 2010, 2011 and 2012 and June 30, 2013, the NPL ratio of our corporate loans in the wholesale and retail industry was 1.42%, 0.91%, 1.53% and 2.24%, and the NPL ratio of our corporate loans in the leasing and commercial services industry was 0.66%, 0.71%, 0.89% and 0.75%. The overall increases in the NPL ratios of these industries from December 31, 2011 to June 30, 2013 were primarily due to the deterioration in the financial condition and the repayment ability of certain borrowers that have been negatively affected by the macroeconomic conditions. The increase in the NPL ratio of our corporate loans in leasing and commercial services industry from December 31, 2010 to December 31, 2011 was primarily due to a decrease in the total amount of loans extended to this industry while the non-performing loans of this industry remained stable.

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Distribution of Non-performing Loans by Geographical Region

The following table sets forth, as of the dates indicated, the distribution of our non-performing loans by geographical region.

	As of December 31,									As of June 30,		
	2010			2011			2012			2013		
	Amount	% of total	NPL ratio ⁽¹⁾	Amount	% of total	NPL ratio ⁽¹⁾	Amount	% of total	NPL ratio ⁽¹⁾	Amount	% of total	NPL ratio ⁽¹⁾
	(in millions of RMB, except percentages)											
Head Office.....	270	4.6%	2.07%	390	6.8%	1.54%	939	12.3%	1.35%	1,364	15.4%	1.52%
Yangtze River Delta	1,326	22.8	0.63	1,203	21.0	0.54	3,018	39.6	1.24	4,088	46.3	1.64
Pearl River Delta.....	1,426	24.5	1.27	1,826	31.9	1.44	1,558	20.5	1.08	1,065	12.0	0.69
Bohai Rim.....	795	13.6	0.47	724	12.6	0.37	635	8.3	0.32	654	7.4	0.32
Central China.....	1,017	17.4	0.89	897	15.7	0.68	775	10.2	0.51	1,083	12.2	0.64
Northeastern China.....	350	6.0	0.76	298	5.2	0.53	181	2.4	0.30	103	1.2	0.15
Western China.....	645	11.1	0.57	389	6.8	0.29	507	6.7	0.33	484	5.5	0.29
Hong Kong.....	-	-	-	-	-	-	-	-	-	-	-	-
Total non-performing loans⁽¹⁾⁽²⁾	<u>5,829</u>	<u>100.0%</u>	<u>0.75%</u>	<u>5,727</u>	<u>100.0%</u>	<u>0.64%</u>	<u>7,613</u>	<u>100.0%</u>	<u>0.74%</u>	<u>8,841</u>	<u>100.0%</u>	<u>0.80%</u>

Notes:

- (1) Calculated by dividing non-performing loans in each category by total loans and advances in that category.
- (2) We did not have non-performing loans in the overseas regions from December 31, 2010 to June 30, 2013.

From December 31, 2012 to June 30, 2013, the NPL ratios of our loans in all the regions, except our Head Office, Central China and the Yangtze River Delta, decreased or remained stable. The NPL ratio of our loans in our Head Office increased from 1.35% to 1.52%, primarily due to the increase in the NPL ratio of our credit card loans, which comprise most of the loans from our Head Office, and the NPL ratio of our loans in the Central China and Yangtze River Delta increased from 0.51% to 0.64% and from 1.24% to 1.64% over this period, respectively primarily due to the deterioration in the financial conditions of certain of our SME customers in this region. From December 31, 2011 to December 31, 2012, the NPL ratios of our loans in all the regions, except the Yangtze River Delta and Western China, decreased. The NPL ratio of our loans in the Yangtze River Delta increased from 0.54% to 1.24% and the NPL ratio of our loans in Western China increased from 0.29% to 0.33% over this period, primarily due to the deterioration in the financial condition and the repayment ability of certain borrowers in these regions that have been negatively affected by the macroeconomic conditions. From December 31, 2010 to December 31, 2011, the NPL ratios of our loans in all the regions, except the Pearl River Delta, decreased. The NPL ratio of our loans in the Pearl River Delta increased from 1.27% to 1.44% over this period primarily due to certain of our corporate loans in the Pearl River Delta downgrading to the “non-performing” category from the “normal” or “special mention” category, which was primarily attributable to the deterioration in the financial condition and the repayment ability of certain borrowers during this period under the impact arising from the macroeconomic volatility and the economic downturn experienced in Europe and the United States.

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Distribution of Non-performing Loans by the Type of Collateral

The following table sets forth, as of the dates indicated, the distribution of our non-performing loans by the type of collateral.

	As of December 31,									As of June 30,		
	2010			2011			2012			2013		
	Amount	% of total	NPL ratio ⁽¹⁾	Amount	% of total	NPL ratio ⁽¹⁾	Amount	% of total	NPL ratio ⁽¹⁾	Amount	% of total	NPL ratio ⁽¹⁾
	(in millions of RMB, except percentages)											
Mortgage loans ⁽²⁾⁽³⁾	2,355	40.4%	0.85%	2,024	35.3%	0.65%	2,385	31.3%	0.67%	3,098	35.0%	0.78%
Pledge loans ⁽²⁾⁽⁴⁾	720	12.4	1.16	725	12.7	0.91	707	9.3	0.82	646	7.3	0.65
Guaranteed loans	2,373	40.7	1.19	2,457	42.9	1.11	3,361	44.2	1.25	3,038	34.4	1.09
Unsecured loans	381	6.5	0.16	521	9.1	0.19	1,160	15.2	0.37	2,059	23.3	0.63
Total non-performing loans	<u>5,829</u>	<u>100.0%</u>	<u>0.75%</u>	<u>5,727</u>	<u>100.0%</u>	<u>0.64%</u>	<u>7,613</u>	<u>100.0%</u>	<u>0.74%</u>	<u>8,841</u>	<u>100.0%</u>	<u>0.80%</u>

Notes:

- (1) Calculated by dividing non-performing loans in each category by total loans and advances in that category.
- (2) Represent the total amount of loans wholly or partly secured by collateral in each category.
- (3) Represent security interests in certain assets, such as buildings, land use rights, machines, equipment and vehicles, without taking possession.
- (4) Represent security interests in certain assets, such as movable assets, certificates of deposit, financial instruments (including discounted bills), intellectual property rights and rights to future cash flows, by taking possession of or registering as the owner of such assets.

Ten Largest Non-performing Borrowers

The following table sets forth, at June 30, 2013, our borrowers with the ten largest non-performing corporate loan balances outstanding.

As of June 30, 2013					
Industry	Amount	Classification	% of total non-performing corporate loans	% of regulatory capital ⁽¹⁾	
(in millions of RMB, except percentages)					
Borrower A	290	Substandard	4.4%	0.2%	
Borrower B	249	Doubtful	3.7	0.1	
Borrower C	215	Doubtful	3.2	0.1	
Borrower D	150	Substandard	2.2	0.1	
Borrower E	109	Substandard	1.6	0.1	
Borrower F	103	Substandard	1.6	0.1	
Borrower G	98	Substandard	1.5	0.1	
Borrower H	98	Substandard	1.5	0.1	
Borrower I	86	Doubtful	1.3	0.1	
Borrower J	82	Doubtful	1.2	0.0	
Total	<u>1,480</u>		<u>22.2%</u>	<u>1.0%</u>	

Note:

- (1) Represents loan amounts as a percentage of our regulatory capital. For the calculation of our regulatory capital as of June 30, 2013, see “Financial Information – Capital Resources – Capital Adequacy Ratio.”

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Loan Aging Schedule

The following table sets forth, as of the dates indicated, our loan aging schedule.

	As of December 31,						As of June 30,	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Current loans	768,892	98.7%	879,675	98.9%	1,006,219	98.4%	1,082,813	98.0%
Loans overdue for								
3 months (inclusive).....	4,349	0.6	5,308	0.6	10,000	1.0	13,791	1.3
3 months to 6 months (inclusive).....	187	0.0	269	0.0	1,190	0.1	2,339	0.2
6 months to 1 year (inclusive)	317	0.0	447	0.1	2,365	0.2	2,394	0.2
Over 1 year	5,083	0.7	4,126	0.4	3,413	0.3	3,217	0.3
Total loans and advances to customers	<u>778,828</u>	<u>100.0%</u>	<u>889,825</u>	<u>100.0%</u>	<u>1,023,187</u>	<u>100.0%</u>	<u>1,104,554</u>	<u>100.0%</u>

Allowance for Impairment Losses on Loans and Advances to Customers

Our loans and advances to customers are reported net of the allowance for impairment losses on our consolidated statement of financial position. The carrying amounts are reviewed by us on a regular basis to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided. Objective evidence of impairment in financial assets represents events that occur after the initial recognition of the financial assets and have impact on the estimated future cash flows of the assets, which can be estimated reliably.

Loans and receivables, which are considered individually significant and those with unique credit characteristics, are assessed individually for impairment. If there is objective evidence of impairment of loans and receivables, the amount of loss is measured as the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate. The impairment losses are recognized in profit or loss. The calculation of the present value of the estimated future cash flows of a collateralized loan or receivable reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

Loans and receivables which are assessed collectively for impairment include individually assessed loans and receivables with no objective evidence of impairment on an individual basis and homogeneous groups of loans and receivables which are not considered individually significant and not assessed individually. The collective impairment loss is assessed after taking into account: historical loss experience in portfolios of similar risk characteristics; the emergence period between a loss occurring and that loss being identified; and the current economic and credit environments and the judgment on inherent loss based on our historical experience.

ASSETS AND LIABILITIES

Distribution of Allowance for Impairment Losses by Loan Classification

The following table sets forth, as of the dates indicated, the distribution of our allowance for impairment losses by loan classification category.

	As of December 31,									As of June 30,		
	2010			2011			2012			2013		
	Amount	% of total	Allowance to loans ⁽¹⁾	Amount	% of total	Allowance to loans ⁽¹⁾	Amount	% of total	Allowance to loans ⁽¹⁾	Amount	% of total	Allowance to loans ⁽¹⁾
	(in millions of RMB, except percentages)											
Normal	11,726	64.2%	1.54%	15,336	72.9%	1.75%	19,170	74.1%	1.91%	18,794	72.6%	1.75%
Special mention.....	1,502	8.2	11.53	1,173	5.6	12.31	2,067	8.0	14.46	2,521	9.7	13.29
Substandard.....	148	0.8	30.58	434	2.1	35.31	1,023	4.0	29.82	1,393	5.4	32.18
Doubtful.....	1,975	10.8	84.26	1,580	7.5	84.00	1,438	5.6	72.81	1,920	7.4	61.66
Loss.....	2,922	16.0	97.37	2,520	11.9	96.29	2,158	8.3	97.78	1,261	4.9	90.20
Subtotal of allowance for impairment losses on NPLs.....	5,045	27.6	86.55	4,534	21.5	79.17	4,619	17.9	60.67	4,574	17.7	51.74
Total allowance	18,273	100.0%	2.35%	21,043	100.0%	2.36%	25,856	100.0%	2.53%	25,889	100.0%	2.34%

Note:

- (1) Calculated by dividing the amount of the allowance for impairment losses on loans in each category by the total amount of loans and advances in that category.

As of June 30, 2013, the balance of our allowance for impairment losses amounted to RMB25,889 million, which remained stable compared to RMB25,856 million as of December 31, 2012. The balance of our allowance for impairment losses increased by 22.9% to RMB25,856 million as of December 31, 2012 from RMB21,043 million as of December 31, 2011, which in turn increased by 15.2% from RMB18,273 million as of December 31, 2010. The overall increase in our allowance for impairment losses from December 31, 2010 to June 30, 2013 was primarily due to (i) an increase in our total loans and advances to customers during this period, and (ii) an increase in our allowance for impairment losses on certain of our loans based on our risk assessment.

ASSETS AND LIABILITIES

The following table sets forth, as of the dates indicated, the allocation of our allowance for impairment losses by business line and by loan classification category.

	As of December 31,									As of June 30,		
	2010			2011			2012			2013		
	Amount	% of total	Allowance to NPLs ⁽¹⁾	Amount	% of total	Allowance to NPLs ⁽¹⁾	Amount	% of total	Allowance to NPLs ⁽¹⁾	Amount	% of total	Allowance to NPLs ⁽¹⁾
(in millions of RMB, except percentages)												
Corporate loans												
Normal	9,645	52.8%	N/A	13,273	63.0%	N/A	16,720	64.7%	N/A	16,254	62.8%	N/A
Special mention.....	1,313	7.1	N/A	974	4.7	N/A	1,598	6.2	N/A	2,003	7.7	N/A
Substandard.....	65	0.4	38.24%	331	1.6	35.67%	830	3.2	28.50%	1,109	4.3	31.13%
Doubtful.....	1,876	10.3	85.04	1,491	7.1	84.86	1,199	4.7	72.98	1,566	6.0	61.44
Loss.....	2,352	12.9	99.96	1,976	9.3	98.21	1,458	5.6	100.00	566	2.2	100.00
Subtotal	15,251	83.5	322.50	18,045	85.7	384.18	21,805	84.4	362.63	21,498	83.0	321.92
Discounted bills												
Normal	26	0.1	N/A	10	0.1	N/A	17	0.1	N/A	29	0.1	N/A
Special mention.....	14	0.1	N/A	-	-	N/A	-	-	N/A	1	0.0	N/A
Substandard.....	-	-	-	25	0.1	50.00	-	-	-	-	-	-
Doubtful.....	-	-	-	-	-	-	-	-	-	-	-	-
Loss.....	-	-	-	-	-	-	-	-	-	-	-	-
Subtotal	40	0.2	-	35	0.2	70.00	17	0.1	-	30	0.1	-
Retail loans												
Normal	2,055	11.3	N/A	2,053	9.8	N/A	2,433	9.3	N/A	2,511	9.7	N/A
Special mention.....	175	1.0	N/A	199	0.9	N/A	469	1.8	N/A	517	2.0	N/A
Substandard.....	83	0.4	26.43	78	0.4	31.08	193	0.8	37.19	284	1.1	37.08
Doubtful.....	99	0.5	71.74	89	0.4	71.77	239	0.9	71.99	354	1.4	62.65
Loss.....	570	3.1	87.96	544	2.6	89.92	700	2.7	93.46	695	2.7	83.53
Subtotal	2,982	16.3	271.09	2,963	14.1	302.35	4,034	15.5	252.13	4,361	16.9	201.62
Total allowance	18,273	100.0%	313.48%	21,043	100.0%	367.43%	25,856	100.0%	339.63%	25,889	100.0%	292.83%

Note:

- (1) Calculated by dividing the amount of the allowance for impairment losses on loans in each category by the total amount of non-performing loans in that category.

Changes in the Allowance for Impairment Losses

We report net impairment losses for the allowance for impairment losses on loans and advances to customers on our consolidated statements of comprehensive income. See “Financial Information – Critical Accounting Estimates and Judgments – Impairment Losses on Loans and Advances, Available-for-sale Financial Assets and Held-to-Maturity Investments.”

ASSETS AND LIABILITIES

The following table sets forth, between the dates indicated, the changes in the allowance for impairment losses on loans and advances to customers.

	Amount
	(in millions of RMB)
As of January 1, 2010	15,765
Charge for the year ⁽¹⁾	3,254
Write-offs	(821)
Recoveries	141
Unwinding of discount ⁽²⁾	(66)
As of December 31, 2010	18,273
Charge for the year ⁽¹⁾	3,420
Write-offs	(749)
Recoveries	151
Unwinding of discount ⁽²⁾	(52)
As of December 31, 2011	21,043
Charge for the year ⁽¹⁾	5,690
Write-offs	(909)
Recoveries	188
Unwinding of discount ⁽²⁾	(156)
As of December 31, 2012	25,856
Charge for the period ⁽¹⁾	2,266
Write-offs	(1,349)
Recoveries	92
Unwinding of discount ⁽²⁾	(171)
Disposals	(805)
As of June 30, 2013	25,889

Notes:

- (1) Represents total allowance for impairment losses on loans (additions to the allowance for impairment losses on loans), net of write-backs (releases from the allowance for impairment losses on loans).
- (2) Represents the interest income accrued on impaired loans as a result of subsequent increases in their present values due to the passage of time.

ASSETS AND LIABILITIES

Distribution of Allowance for Impairment Losses by Assessment Methodology

The following table sets forth, as of the dates indicated, the distribution of the allowance for impairment losses for our loans and advances to customers by our assessment methodology.

	As of December 31,						As of June 30,	
	2010		2011		2012		2013	
	Amount	Allowance to loans ⁽¹⁾	Amount	Allowance to loans ⁽¹⁾	Amount	Allowance to loans ⁽¹⁾	Amount	Allowance to loans ⁽¹⁾
	(in millions of RMB, except percentages)							
Collectively assessed.....	13,980	1.81%	17,220	1.95%	22,369	2.20%	22,648	2.06%
Individually assessed.....	4,293	90.78	3,823	80.54	3,487	57.99	3,241	48.53
Total allowance.....	<u>18,273</u>	<u>2.35%</u>	<u>21,043</u>	<u>2.36%</u>	<u>25,856</u>	<u>2.53%</u>	<u>25,889</u>	<u>2.34%</u>

Note:

- (1) Calculated by dividing the amount of the allowance for impairment losses on loans in each category by the total amount of loans and advances in that category.

Distribution of Allowance for Impairment Losses by Product Type

The following table sets forth, as of the dates indicated, the distribution of the allowance for impairment losses for our loans and advances to customers by product type.

	As of December 31,									As of June 30,		
	2010			2011			2012			2013		
	Amount	% of total	Allowance to NPLs ⁽¹⁾	Amount	% of total	Allowance to NPLs ⁽¹⁾	Amount	% of total	Allowance to NPLs ⁽¹⁾	Amount	% of total	Allowance to NPLs ⁽¹⁾
	(in millions of RMB, except percentages)											
Corporate loans												
Short-term loans.....	6,679	36.6%	231.03%	8,152	38.7%	248.08%	12,603	48.8%	263.99%	13,240	51.1%	220.89%
Medium- to long-term loans.....	8,572	46.9	466.38	9,893	47.0	701.13	9,202	35.6	742.70	8,258	31.9	1,207.31
Subtotal	<u>15,251</u>	<u>83.5</u>	<u>322.50</u>	<u>18,045</u>	<u>85.7</u>	<u>384.18</u>	<u>21,805</u>	<u>84.4</u>	<u>362.63</u>	<u>21,498</u>	<u>83.0</u>	<u>321.92</u>
Discounted bills	40	0.2	N/A	35	0.2	70.00	17	0.1	N/A	30	0.1	N/A
Retail loans												
Residential and commercial mortgage loans	1,850	10.1	285.05	1,738	8.2	350.40	2,000	7.7	364.96	1,971	7.6	344.58
Micro-enterprise equipment loans	244	1.3	2,033.33	246	1.2	6,150.00	255	1.0	8,500.00	260	1.0	26,000.00
Credit card	290	1.6	117.89	497	2.4	134.69	1,321	5.1	143.43	1,454	5.7	107.94
Others.....	598	3.3	309.84	482	2.3	434.23	458	1.7	357.81	676	2.6	278.19
Subtotal	<u>2,982</u>	<u>16.3</u>	<u>271.09</u>	<u>2,963</u>	<u>14.1</u>	<u>302.35</u>	<u>4,034</u>	<u>15.5</u>	<u>252.13</u>	<u>4,361</u>	<u>16.9</u>	<u>201.62</u>
Total allowance.....	<u>18,273</u>	<u>100.0%</u>	<u>313.48%</u>	<u>21,043</u>	<u>100.0%</u>	<u>367.43%</u>	<u>25,856</u>	<u>100.0%</u>	<u>339.63%</u>	<u>25,889</u>	<u>100.0%</u>	<u>292.83%</u>

Note:

- (1) Calculated by dividing the amount of the allowance for impairment losses on loans in each category by the amount of non-performing loans in that category.

ASSETS AND LIABILITIES

Distribution of Allowance for Impairment Losses for Corporate Loans by Industry

The following table sets forth, as of the dates indicated, the allowance for impairment losses for our corporate loans by industry.

	As of December 31,									As of June 30,		
	2010			2011			2012			2013		
	Amount	% of total	Allowance to NPLs ⁽¹⁾	Amount	% of total	Allowance to NPLs ⁽¹⁾	Amount	% of total	Allowance to NPLs ⁽¹⁾	Amount	% of total	Allowance to NPLs ⁽¹⁾
(in millions of RMB, except percentages)												
Manufacturing	4,394	28.8%	239.06%	5,343	29.5%	273.02%	7,103	32.6%	316.25%	6,619	30.8%	315.49%
Transportation, storage and postal services	1,952	12.8	290.48	2,410	13.4	382.54	2,592	11.9	369.76	2,102	9.8	428.98
Wholesale and retail	1,936	12.7	202.94	2,633	14.6	282.51	4,404	20.2	222.09	4,966	23.1	157.70
Real estate.....	2,049	13.4	454.32	2,481	13.7	594.96	2,415	11.1	887.87	2,568	11.9	995.35
Leasing and commercial services	1,441	9.4	388.41	1,549	8.6	422.07	1,385	6.3	380.49	1,351	6.3	467.47
Water, environment and public utilities management	1,450	9.5	145,000.00	1,219	6.8	N/A	932	4.2	N/A	722	3.3	N/A
Production and supply of power, gas and water ...	647	4.2	622.12	748	4.1	763.27	694	3.2	1,735.00	600	2.8	N/A
Construction	311	2.0	282.73	432	2.4	351.22	736	3.4	385.34	918	4.3	633.10
Mining.....	381	2.5	614.52	480	2.7	1,297.30	626	2.9	1,277.55	626	2.9	792.41
Others ⁽²⁾	690	4.7	415.66	750	4.2	551.47	918	4.2	549.70	1,026	4.8	603.53
Total allowance for corporate loans	15,251	100.0%	322.50%	18,045	100.0%	384.18%	21,805	100.0%	362.63%	21,498	100.0%	321.92%

Notes:

- (1) Calculated by dividing the amount of the allowance for impairment losses on loans in each category by the amount of non-performing loans in that category.
- (2) Consist of agriculture, forestry, animal husbandry and fishery; accommodation and catering industry; financial industry; scientific research, technical services and geological prospecting; resident services and other services; health, social security and social welfare; culture, sports and entertainment and so forth.

Distribution of Allowance for Impairment Losses by Geographical Region

The following table sets forth, as of the dates indicated, the allocation of our allowance for impairment losses by geographical region.

	As of December 31,									As of June 30,		
	2010			2011			2012			2013		
	Amount	% of total	Allowance to NPLs ⁽¹⁾	Amount	% of total	Allowance to NPLs ⁽¹⁾	Amount	% of total	Allowance to NPLs ⁽¹⁾	Amount	% of total	Allowance to NPLs ⁽¹⁾
(in millions of RMB, except percentages)												
Head Office.....	310	1.7%	114.81%	516	2.5%	132.31%	1,339	5.2%	142.60%	1,472	5.7%	107.92%
Yangtze River Delta	4,791	26.2	361.31	5,159	24.5	428.84	6,647	25.7	220.25	7,356	28.4	179.94
Pearl River Delta.....	3,380	18.5	237.03	3,927	18.7	215.06	4,441	17.2	285.04	3,856	14.9	362.07
Bohai Rim.....	3,440	18.8	432.70	4,078	19.4	563.26	4,834	18.7	761.26	4,675	18.1	714.83
Central China.....	2,959	16.2	290.95	3,286	15.6	366.33	3,841	14.8	495.61	3,664	14.1	338.32
Northeastern China.....	1,018	5.6	290.86	1,297	6.2	435.23	1,402	5.4	774.59	1,370	5.3	1,330.10
Western China.....	2,375	13.0	368.22	2,780	13.1	714.65	3,352	13.0	661.14	3,494	13.5	721.90
Hong Kong.....	-	-	N/A	-	-	N/A	-	-	N/A	2	0.0	N/A
Total allowance	18,273	100.0%	313.48%	21,043	100.0%	367.43%	25,856	100.0%	339.63%	25,889	100.0%	292.83%

Note:

- (1) Calculated by dividing the amount of the allowance for impairment losses on loans in each region by the amount of non-performing loans in that region.

ASSETS AND LIABILITIES

Investments

Our investments are an important component of our assets. Net investments represented 12.6%, 9.3%, 21.0% and 23.2% of our total assets as of December 31, 2010, 2011 and 2012 and June 30, 2013, respectively.

We classify our investments into (i) debt securities, (ii) equity instruments, (iii) fixed-rate mortgages and (iv) debt securities classified as receivables. The following table sets forth, as of the dates indicated, the components of our investments.

	As of December 31,						As of June 30,	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Debt Securities								
Held-to-maturity debt securities	87,908	46.8%	84,243	52.2%	96,112	20.1%	93,303	16.2%
Available-for-sale debt securities	77,142	41.1	54,403	33.7	91,801	19.2	99,309	17.3
Debt securities at fair value through profit or loss	21,728	11.6	22,170	13.7	29,084	6.1	31,473	5.5
Subtotal	<u>186,778</u>	<u>99.5</u>	<u>160,816</u>	<u>99.6</u>	<u>216,997</u>	<u>45.4</u>	<u>224,085</u>	<u>39.0</u>
Equity instruments								
Available-for-sale equity investments	100	0.1	100	0.1	100	0.0	100	0.0
Fixed-rate mortgages	669	0.4	557	0.3	369	0.1	306	0.1
Debt securities classified as receivables ⁽¹⁾	-	-	-	-	261,207	54.5	350,334	60.9
Total investments	<u>187,547</u>	<u>100.0%</u>	<u>161,473</u>	<u>100.0%</u>	<u>478,673</u>	<u>100.0%</u>	<u>574,825</u>	<u>100.0%</u>
Allowance for impairment losses .	(116)	-	(259)	-	(289)	-	(256)	-
Investments, net	<u>187,431</u>		<u>161,214</u>		<u>478,384</u>		<u>574,569</u>	

Note:

(1) Consist of beneficial interest transfer plans and wealth management products of financial institutions.

As of June 30, 2013, our total investments increased by 20.1% to RMB574,825 million from RMB478,673 million as of December 31, 2012, which in turn significantly increased by 196.4% to RMB478,673 million from RMB161,473 million as of December 31, 2011, primarily because we started to invest in debt securities classified as receivables in 2012 as such investment products rapidly emerged in China since 2012.

Our debt securities classified as receivables include our investments in beneficial interest transfer plans and wealth management products offered by other domestic financial institutions, which are currently a source of credit in the PRC inter-bank financing market. These types of investment products typically have predetermined rates of return and fixed terms. Because we purchase these investment products directly from the issuing institutions, and the secondary market for such products has not been active, we record these investment products as debt securities classified as receivables in accordance with IFRS.

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Beneficial interest transfer plans are the major component of our debt securities classified as receivables. The underlying trust assets of our beneficial interest transfer plans consist of financial asset products offered by other reputable domestic financial institutions, attributable to infrastructure development, wholesale and retail, energy and various other industries. The beneficial interest transfer plans investment portfolio has not been concentrated in any single industry. For more details and a breakdown of debt securities classified as receivables, see Note 24 to the Accountants' Report in Appendix I to this prospectus.

The following table sets forth, as of June 30, 2013, the balance of our debt securities classified as receivables by remaining maturity.

As of June 30, 2013							
Overdue	Due within 1 month or less	Due over 1 month up to 3 months	Due over 3 months up to 12 months	Due between 1 year and 5 years	Due more than 5 years	Total	
(in millions of RMB)							
Debt securities classified as receivables	–	8,773	56,042	92,900	192,319	300	350,334

The primary risk for investments in debt securities classified as receivables is counterparty credit risk, because (i) we hold wealth management products offered by other domestic financial institutions and some of our beneficial interest transfer plans to maturity, and (ii) for beneficial interest transfer plans that we do not hold to maturity, we enter into forward sales contracts with the issuers of such products or third-party financial institutions. To manage counterparty credit risks arising from debt securities classified as receivables, we have set certain requirements for both issuers and third party financial institutions involved: generally, the issuer or third party financial institution (i) is a large bank in terms of total assets, (ii) is a bank with a credit rating of at least A- as rated by us, or (iii) is one of the four major domestic state-owned asset management companies.

As of December 31, 2011, our total investments amounted to RMB161,473 million, a decrease of 13.9% from RMB187,547 million as of December 31, 2010, primarily due to the decrease in our investment in debt securities.

Debt Securities

Our debt securities consist of listed and unlisted debt securities issued in and outside of the PRC by governments, the PBOC, policy banks, other banks and financial institutions, other domestic institutions and entities in public sectors and other institutions.

ASSETS AND LIABILITIES

The following table sets forth, as of the dates indicated, our debt securities by issuer type.

	As of December 31,						As of June 30,	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Government bonds	45,271	24.2%	40,282	25.0%	88,279	40.7%	90,585	40.4%
PBOC bills.....	30,736	16.5	19	0.0	100	0.0	616	0.3
Bonds issued by banks and financial institutions in PRC....	43,146	23.1	40,478	25.2	42,129	19.4	40,163	17.9
Bonds issued by other domestic institutions	66,425	35.6	79,057	49.2	85,513	39.4	91,367	40.8
Bonds issued by other banks and financial institutions outside PRC	898	0.5	863	0.5	863	0.4	1,206	0.5
Bonds issued by entities in public sectors and other institutions outside PRC	302	0.1	117	0.1	113	0.1	148	0.1
Total debt securities	186,778	100.0%	160,816	100.0%	216,997	100.0%	224,085	100.0%

As of June 30, 2013, the balance of our total debt securities amounted to RMB224,085 million, an increase of 3.3% from RMB216,997 million as of December 31, 2012. The balance of our total debt securities increased by 34.9% to RMB216,997 million as of December 31, 2012 from RMB160,816 million as of December 31, 2011, which in turn decreased by 13.9% from RMB186,778 million as of December 31, 2010.

As of June 30, 2013, the balance of our government bonds amounted to RMB90,585 million, an increase of 2.6% from RMB88,279 million as of December 31, 2012, which in turn increased by 119.2% from RMB40,282 million as of December 31, 2011, primarily because we allocated more funds to invest in government bonds that had high credit rating and because of the benefits of tax exemption on the interest income. As of December 31, 2011, the balance of our government bonds amounted to RMB40,282 million, a decrease of 11.0% from RMB45,271 million as of December 31, 2010, primarily due to the adjustment of our debt securities portfolio in response to the increases in the PBOC benchmark interest rates.

The overall decrease in our PBOC bills from RMB30,736 million as of December 31, 2010 to RMB616 million as of June 30, 2013 was primarily due to the adjustment of our debt securities portfolio by reallocating our fund resources to products with higher yields.

As of June 30, 2013, the balance of our bonds issued by other domestic institutions amounted to RMB91,367 million, an increase of 6.8% from RMB85,513 million as of December 31, 2012. The balance of our bonds issued by other domestic institutions increased by 8.2% to RMB85,513 million as of December 31, 2012 from RMB79,057 million as of December 31, 2011, which in turn increased by 19.0% from RMB66,425 million as of December 31, 2010. As a percentage to our total debt securities, such bonds accounted for 35.6%, 49.2%, 39.4% and 40.8% as of December 31, 2010, 2011 and 2012 and June 30, 2013, respectively. The increase in the balance of our bonds issued by other domestic institutions from December 31, 2010 to June 30, 2013 was primarily due to the rapid development of short-term commercial paper and medium-term notes, which gradually became one of the important investment targets in the inter-bank market and enabled us to actively participate in the investments in such short-term commercial paper and medium-term notes based on effective credit risk control.

ASSETS AND LIABILITIES

The following table sets forth, as of the dates indicated, our debt securities by the domicile of the issuer.

	As of December 31,						As of June 30,	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
PRC	185,505	99.3%	159,836	99.4%	216,021	99.6%	222,731	99.4%
Outside PRC	1,273	0.7	980	0.6	976	0.4	1,354	0.6
Total debt securities	186,778	100.0%	160,816	100.0%	216,997	100.0%	224,085	100.0%

Debt securities issued by PRC issuers account for the vast majority of our debt securities, representing more than 99.3% of our total debt securities as of December 31, 2010, 2011 and 2012 and June 30, 2013, respectively.

As of June 30, 2013, the balance of our debt securities issued by issuers outside the PRC amounted to RMB1,354 million, an increase of 38.7% from RMB976 million as of December 31, 2012. The balance of our debt securities issued by issuers outside the PRC decreased by 0.4% to RMB976 million as of December 31, 2012 from RMB980 million as of December 31, 2011, which in turn decreased by 23.0% from RMB1,273 million as of December 31, 2010. The decrease from December 31, 2010 to December 31, 2012 was primarily because a portion of such debt securities matured or were sold. The increase from December 31, 2012 to June 30, 2013 was primarily due to investments in new foreign currency denominated debt securities.

The following table sets forth, as of the dates indicated, our debt securities by currency.

	As of December 31,						As of June 30,	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
RMB-denominated	184,831	99.0%	159,197	99.0%	215,514	99.3%	222,326	99.2%
U.S. dollar-denominated	1,815	0.9	1,497	0.9	1,360	0.6	1,639	0.7
Other foreign currency-denominated	132	0.1	122	0.1	123	0.1	120	0.1
Total debt securities	186,778	100.0%	160,816	100.0%	216,997	100.0%	224,085	100.0%

ASSETS AND LIABILITIES

The following table sets forth, as of June 30, 2013, the balance of our debt securities by remaining maturity.

	As of June 30, 2013					Total
	Overdue	Due within 3 months or less	Due between 3 months to 1 year	Due over 1 year up to 5 years	Due more than 5 years	
(in millions of RMB)						
Government bonds	–	3,766	1,836	18,009	66,974	90,585
PBOC bills	–	616	–	–	–	616
Bonds issued by banks and financial institutions in PRC	–	605	4,017	21,636	13,905	40,163
Bonds issued by other domestic institutions	–	1,148	10,414	74,639	5,166	91,367
Bonds issued by other banks and financial institutions outside PRC ...	–	–	92	895	219	1,206
Bonds issued by entities in public sectors and other institutions outside PRC	–	–	32	–	116	148
Total debt securities	–	<u>6,135</u>	<u>16,391</u>	<u>115,179</u>	<u>86,380</u>	<u>224,085</u>

The following table sets forth, as of the dates indicated, a breakdown of our debt securities between fixed interest rate and floating interest rate.

	As of December 31,						As of June 30,	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentage)								
Fixed interest rate	168,447	90.2%	144,640	89.9%	201,242	92.7%	208,648	93.1%
Floating interest rate	18,331	9.8	16,176	10.1	15,755	7.3	15,437	6.9
Total debt securities	<u>186,778</u>	<u>100.0%</u>	<u>160,816</u>	<u>100.0%</u>	<u>216,997</u>	<u>100.0%</u>	<u>224,085</u>	<u>100.0%</u>

The following table sets forth, as of the dates indicated, the carrying value and the fair value of the held-to-maturity debt securities in our investment portfolio.

	As of December 31,						As of June 30,	
	2010		2011		2012		2013	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
(in millions of RMB)								
Held-to-maturity debt securities...	87,793	87,255	83,985	84,363	95,824	96,064	93,048	93,426

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Investment Concentration

The following table sets forth, as of June 30, 2013, our investments by issuer whose carrying value exceeded 10% of our shareholders' equity.

	As of June 30, 2013				
	Carrying value	% of total investments	% of total shareholders' equity	Carrying value/fair value	Fair value
	(in millions of RMB, except percentage)				
The MOF	84,392	14.7%	66.4%	99.9%	84,497
China Development Bank	28,056	4.9	22.1	100.4	27,942
Total	<u>112,448</u>	<u>19.6%</u>	<u>88.5%</u>	<u>100.0%</u>	<u>112,439</u>

Other Components of Our Assets

Other components of our assets consist primarily of (i) cash and deposits with the central bank, (ii) deposits with banks and other financial institutions, (iii) financial assets held under resale agreements and placements with banks and other financial institutions and (iv) other assets.

Cash and deposits with the central bank consist primarily of cash, required deposit reserves and surplus deposit reserves. Required deposit reserves represent the minimum level of cash deposits that we are required to maintain at the PBOC. The minimum level is determined as a percentage of our deposits from customers. Surplus deposit reserves are deposits with the PBOC, in excess of required deposit reserves which we maintain for clearing purposes. As of June 30, 2013, our cash and deposits with the central bank amounted to RMB311,708 million, an increase of 9.2% from RMB285,478 million as of December 31, 2012. Our cash and deposits with the central bank increased by 24.8% to RMB285,478 million as of December 31, 2012 from RMB228,666 million as of December 31, 2011, which in turn increased by 23.1% from RMB185,745 million as of December 31, 2010. The overall increase from December 31, 2010 to June 30, 2013 was primarily due to the increase in our deposits from customers and the increased deposit reserve ratio required by the PBOC.

Deposits with banks and other financial institutions consist primarily of our account balances maintained at other banks and financial institutions for settlement and clearing purposes or to pursue higher yields. As of June 30, 2013, the balance of our deposits with banks and other financial institutions, net of the allowance for impairment losses, was RMB73,870 million, an increase of 57.1% from RMB47,019 million as of December 31, 2012. The balance of our deposits with banks and other financial institutions, net of the allowance for impairment losses, decreased by 55.3% to RMB47,019 million as of December 31, 2012 from RMB105,263 million as of December 31, 2011, which in turn increased by 97.6% from RMB53,275 million as of December 31, 2010. The fluctuations from December 31, 2010 to June 30, 2013 were primarily due to our adjustment of overall asset portfolio to allocate our fund resources to products with higher yields while meeting our liquidity needs.

Financial assets held under resale agreements consist primarily of securities held under resale agreements, bank acceptance bills and credit assets. Placements with banks and other financial institutions consist primarily of inter-bank lendings. As of June 30, 2013, the balance of our financial assets held under resale agreements and placements with banks and other financial institutions amounted to RMB318,444 million, a decrease of 13.2% from RMB366,705 million as of December 31, 2012. The balance of our financial assets held under resale agreements and placements with banks and other financial institutions increased by 27.0% to RMB366,705 million as of December 31, 2012 from RMB288,687 million as of

ASSETS AND LIABILITIES

December 31, 2011, which in turn increased by 48.9% from RMB193,870 million as of December 31, 2010. The overall increase from December 31, 2010 to December 31, 2012 was primarily due to the following reasons: (i) we continued to develop our inter-bank operations and (ii) we adjusted our overall asset portfolio to allocate our fund resources to products with higher yields while meeting our liquidity needs. The decrease from December 31, 2012 to June 30, 2013 was primarily due to our liquidity management needs.

Other assets consist primarily of interest receivables, positive fair value of derivatives, fixed assets, intangible assets, deferred tax assets, goodwill and other assets (including assets held for wealth management products). As of June 30, 2013, our other assets amounted to RMB113,912 million, an increase of 9.1% from RMB104,378 million as of December 31, 2012, primarily due to the increase in assets held for wealth management products and finance lease receivables. As of December 31, 2012, our other assets amounted to RMB104,378 million, an increase of 29.3% from RMB80,734 million as of December 31, 2011, primarily due to the increases in assets held for wealth management products and in interest receivables. Our other assets decreased by 21.7% to RMB80,734 million as of December 31, 2011 from RMB103,074 million as of December 31, 2010, primarily due to a decrease in assets held for wealth management products.

LIABILITIES AND SOURCES OF FUNDS

As of June 30, 2013, our total liabilities amounted to RMB2,344,102 million, an increase of 8.3% from RMB2,164,973 million as of December 31, 2012. Our total liabilities increased by 32.2% to RMB2,164,973 million as of December 31, 2012 from RMB1,637,196 million as of December 31, 2011, which in turn increased by 16.7% from RMB1,402,487 million as of December 31, 2010. Deposits from customers have been our primary source of funding and represented 75.8%, 74.8%, 65.9% and 66.3% of our total liabilities, as of December 31, 2010, 2011 and 2012 and June 30, 2013, respectively.

The following table sets forth, as of the dates indicated, the components of our total liabilities.

	As of December 31,						As of June 30,	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Deposits from customers.....	1,063,180	75.8%	1,225,278	74.8%	1,426,941	65.9%	1,554,691	66.3%
Deposits from banks and other financial institutions	197,214	14.1	270,627	16.5	527,561	24.4	564,122	24.1
Placements from banks and other financial institutions and financial assets sold under repurchase agreements	30,893	2.2	67,971	4.2	97,490	4.5	112,439	4.8
Debt securities issued	16,000	1.1	16,000	1.0	52,700	2.4	44,700	1.9
Other liabilities ⁽¹⁾	95,200	6.8	57,320	3.5	60,281	2.8	68,150	2.9
Total liabilities.....	<u>1,402,487</u>	<u>100.0%</u>	<u>1,637,196</u>	<u>100.0%</u>	<u>2,164,973</u>	<u>100.0%</u>	<u>2,344,102</u>	<u>100.0%</u>

Note:

- (1) Consist of negative fair value of derivatives, accrued staff costs, taxes payable, interest payable, provisions and other liabilities (including wealth management fund).

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Deposits from Customers

We provide demand and time deposit products to corporate and retail customers. The following table sets forth, as of the dates indicated, the deposits from customers by product type and customer type.

	As of December 31,						As of June 30,	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)								
Corporate deposits								
Time	356,370	33.5%	409,417	33.4%	476,737	33.4%	526,834	33.9%
Demand	384,456	36.2	398,986	32.6	397,626	27.9	392,407	25.2
Subtotal.....	<u>740,826</u>	<u>69.7</u>	<u>808,403</u>	<u>66.0</u>	<u>874,363</u>	<u>61.3</u>	<u>919,241</u>	<u>59.1</u>
Retail deposits								
Time	87,503	8.2	114,062	9.3	127,378	8.9	141,001	9.1
Demand ⁽¹⁾	59,206	5.6	78,712	6.4	157,302	11.0	192,915	12.4
Subtotal.....	<u>146,709</u>	<u>13.8</u>	<u>192,774</u>	<u>15.7</u>	<u>284,680</u>	<u>19.9</u>	<u>333,916</u>	<u>21.5</u>
Pledged deposits								
Corporate.....	140,283	13.2	175,168	14.3	221,143	15.5	246,770	15.9
Retail.....	368	0.0	275	0.0	819	0.1	2,392	0.1
Subtotal.....	<u>140,651</u>	<u>13.2</u>	<u>175,443</u>	<u>14.3</u>	<u>221,962</u>	<u>15.6</u>	<u>249,162</u>	<u>16.0</u>
Funds deposited with us for remittance ⁽²⁾	1,524	0.1	2,180	0.2	3,319	0.2	4,339	0.3
Structured deposits								
Corporate.....	14,132	1.4	4,017	0.3	14,103	1.0	20,109	1.3
Retail.....	19,338	1.8	42,461	3.5	28,514	2.0	27,924	1.8
Subtotal.....	<u>33,470</u>	<u>3.2</u>	<u>46,478</u>	<u>3.8</u>	<u>42,617</u>	<u>3.0</u>	<u>48,033</u>	<u>3.1</u>
Total deposits from customers...	<u>1,063,180</u>	<u>100.0%</u>	<u>1,225,278</u>	<u>100.0%</u>	<u>1,426,941</u>	<u>100.0%</u>	<u>1,554,691</u>	<u>100.0%</u>

Notes:

- (1) Retail demand deposits as of December 31, 2012 included liabilities under principal-guaranteed wealth management products.
(2) Consist of only corporate deposits.

As of June 30, 2013, our total deposits from customers amounted to RMB1,554,691 million, an increase of 9.0% from RMB1,426,941 million as of December 31, 2012. Our total deposits from customers increased by 16.5% to RMB1,426,941 million as of December 31, 2012 from RMB1,225,278 million as of December 31, 2011, which in turn increased by 15.2% from RMB1,063,180 million as of December 31, 2010.

As of June 30, 2013, our corporate deposits amounted to RMB919,241 million, an increase of 5.1% from RMB874,363 million as of December 31, 2012. Our corporate deposits increased by 8.2% to RMB874,363 million as of December 31, 2012 from RMB808,403 million as of December 31, 2011, which in turn increased by 9.1% from RMB740,826 million as of December 31, 2010. The overall increase in our corporate deposits from December 31, 2010 to June 30, 2013 was primarily due to: (i) our on-going efforts to grow corporate deposits by way of product innovation, (ii) our expanded branch network and improved customer service, to attract and maintain our corporate customers and (iii) our enhanced marketing efforts to our key corporate customers.

As of June 30, 2013, our retail deposits amounted to RMB333,916 million, an increase of 17.3% from RMB284,680 million as of December 31, 2012, among which our retail time deposits increased by 10.7% whereas our retail demand deposits increased by 22.6%. As of December 31, 2012, our retail

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deposits amounted to RMB284,680 million, an increase of 47.7% from RMB192,774 million as of December 31, 2011, among which our retail time deposits increased by 11.7% and our retail demand deposits increased by 99.8%. Our retail deposits increased by 31.4% to RMB192,774 million as of December 31, 2011 from RMB146,709 million as of December 31, 2010, among which our retail time deposits increased by 30.4% whereas our retail demand deposits increased by 32.9%. The overall increase in our retail deposits from December 31, 2010 to June 30, 2013 was primarily due to: (i) our efforts in product innovation and cross-selling with our wealth management, credit card and retail loan products, which resulted in the expansion of the customer base of our retail deposits, and (ii) enhancement of our distribution channels, including the expansion of our branch network and our electronic banking system.

Our pledged deposits primarily include acceptance deposits, letter of credit deposits, letter of guarantee deposits and credit-linked deposits. As of June 30, 2013, our total pledged deposits amounted to RMB249,162 million, an increase of 12.3% from RMB221,962 million as of December 31, 2012. Our total pledged deposits increased by 26.5% to RMB221,962 million as of December 31, 2012 from RMB175,443 million as of December 31, 2011, which in turn increased by 24.7% from RMB140,651 million as of December 31, 2010. The overall increase from December 31, 2010 to June 30, 2013 was primarily due to an increase in the scale of our bank acceptance bills business.

As of June 30, 2013, the balance of our total structured deposits amounted to RMB48,033 million, an increase of 12.7% from RMB42,617 million as of December 31, 2012. The balance of our structured deposits decreased by 8.3% to RMB42,617 million as of December 31, 2012 from RMB46,478 million as of December 31, 2011, which in turn increased by 38.9% from RMB33,470 million as of December 31, 2010. The overall increase from December 31, 2010 to June 30, 2013 was primarily due to (i) greater market demand for such products and (ii) our strategy to promote structured wealth management products.

Distribution of Deposits by Geographical Region

We classify deposits geographically based on the location of branches taking the deposits. There is generally a high correlation between the location of the depositor and the location of the branch taking the deposit, except in the case of our Head Office, which takes deposits from the headquarters of certain large corporate customers. The following table sets forth, as of the dates indicated, the distribution of our deposits from customers by geographical region.

	As of December 31,						As of June 30,	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Head Office.....	51,744	4.9%	75,920	6.2%	95,522	6.7%	75,800	4.9%
Yangtze River Delta.....	227,363	21.4	255,509	20.9	299,549	21.0	328,254	21.1
Pearl River Delta	146,038	13.7	168,029	13.7	189,520	13.3	217,827	14.0
Bohai Rim.....	278,997	26.2	318,241	26.0	370,833	25.9	392,481	25.3
Central China.....	140,867	13.3	163,298	13.3	191,939	13.5	219,638	14.1
Northeastern China	78,909	7.4	92,143	7.5	103,159	7.2	110,807	7.1
Western China.....	139,262	13.1	152,138	12.4	176,419	12.4	207,649	13.4
Hong Kong.....	-	-	-	-	-	-	2,235	0.1
Total deposits from customers...	1,063,180	100.0%	1,225,278	100.0%	1,426,941	100.0%	1,554,691	100.0%

As of December 31, 2010, 2011 and 2012 and June 30, 2013, the deposits of our branches in the Yangtze River Delta, the Pearl River Delta and the Bohai Rim regions in aggregate accounted for 61.3%, 60.6%, 60.2% and 60.4% of our total deposits from customers, respectively.

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Distribution of Deposits by Remaining Maturity

The following table sets forth, at June 30, 2013, the distribution of our deposits from customers by remaining maturity.

As of June 30, 2013												
Repayable on demand		Due within 3 months or less		Due over 3 months up to 12 months		Due over 1 year up to 5 years		Due more than 5 years				
Amount	% of total deposits	Amount	% of total deposits	Amount	% of total deposits	Amount	% of total deposits	Amount	% of total deposits	Total	% of total deposits	
(in millions of RMB, except percentages)												
Corporate deposits												
Time deposits	-	-	168,715	10.9%	179,229	11.5%	177,210	11.4%	1,680	0.1%	526,834	33.9%
Demand deposits	392,407	25.2%	-	-	-	-	-	-	-	-	392,407	25.2
Subtotal	392,407	25.2	168,715	10.9	179,229	11.5	177,210	11.4	1,680	0.1	919,241	59.1
Retail deposits												
Time deposits	-	-	57,041	3.7	47,064	3.0	36,896	2.4	-	-	141,001	9.1
Demand deposits	192,915	12.4	-	-	-	-	-	-	-	-	192,915	12.4
Subtotal	192,915	12.4	57,041	3.7	47,064	3.0	36,896	2.4	-	-	333,916	21.5
Pledged deposits	40,717	2.6	111,435	7.1	96,143	6.2	867	0.1	-	-	249,162	16.0
Funds deposited with us for remittance	4,339	0.3	-	-	-	-	-	-	-	-	4,339	0.3
Structured deposits	-	-	18,102	1.2	29,931	1.9	-	-	-	-	48,033	3.1
Total deposits from customers	630,378	40.5%	355,293	22.9%	352,367	22.6%	214,973	13.9%	1,680	0.1%	1,554,691	100.0%

Distribution of Deposits by Currency

The following table sets forth, as of the dates indicated, the distribution of our deposits from customers by currency.

	As of December 31,						As of June 30,	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)								
Renminbi deposits.....	1,038,147	97.6%	1,192,667	97.3%	1,375,598	96.4%	1,510,150	97.2%
U.S. dollar deposits.....	18,973	1.8	25,808	2.1	41,891	2.9	39,492	2.5
Other foreign currency deposits...	6,060	0.6	6,803	0.6	9,452	0.7	5,049	0.3
Total deposits from customers...	1,063,180	100.0%	1,225,278	100.0%	1,426,941	100.0%	1,554,691	100.0%

Other Components of Our Liabilities

Other components of our liabilities consist primarily of (i) deposits from banks and other financial institutions, (ii) placements from banks and other financial institutions and financial assets sold under repurchase agreements, (iii) debt securities issued and (iv) other liabilities.

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Deposits from Banks and Other Financial Institutions

As of June 30, 2013, our deposits from banks and other financial institutions amounted to RMB564,122 million, an increase of 6.9% from RMB527,561 million as of December 31, 2012. Our deposits from banks and other financial institutions increased by 94.9% to RMB527,561 million as of December 31, 2012 from RMB270,627 million as of December 31, 2011, which in turn increased by 37.2% from RMB197,214 million as of December 31, 2010. The overall increase from December 31, 2010 to June 30, 2013 was primarily due to our adjustment of the overall liabilities structure to obtain funds at lower costs while meeting our liquidity needs.

Placements from Banks and Other Financial Institutions and Financial Assets Sold under Repurchase Agreements

As of June 30, 2013, our placements from banks and other financial institutions and financial assets sold under repurchase agreements amounted to RMB112,439 million, an increase of 15.3% from RMB97,490 million as of December 31, 2012, primarily due to our liquidity management needs. Our placements from banks and other financial institutions and financial assets sold under repurchase agreements increased by 43.4% to RMB97,490 million as of December 31, 2012 from RMB67,971 million as of December 31, 2011, which in turn increased by 120.0% from RMB30,893 million as of December 31, 2010. The increase from December 31, 2010 to December 31, 2012 primarily reflected our adjustment of the overall liabilities structure to obtain funds at lower costs while meeting our liquidity needs.

Debt Securities Issued

See “Financial Information – Capital Resources – Debt Securities Issued.”

Other Liabilities

Our other liabilities consist of negative fair value of derivatives, accrued staff costs, taxes payable, interest payable, provisions and other liabilities (including wealth management fund). As of June 30, 2013, our total other liabilities amounted to RMB68,150 million, an increase of 13.1% from RMB60,281 million as of December 31, 2012, primarily due to the increase in liabilities held for wealth management products. Our total other liabilities increased by 5.2% to RMB60,281 million as of December 31, 2012 from RMB57,320 million as of December 31, 2011, primarily due to increases in interest payable, accrued staff costs, and taxes payable. Our total other liabilities decreased by 39.8% to RMB57,320 million as of December 31, 2011 from RMB95,200 million as of December 31, 2010.

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SELECTED UNAUDITED ASSETS AND LIABILITIES INFORMATION AS OF SEPTEMBER 30, 2013

Under the rules of the Shanghai Stock Exchange on which our A Shares are listed, we are required to publish reports containing unaudited financial statements as of and for the nine months ended September 30 of each year. Because we published certain financial statements as of and for the nine months ended September 30, 2013 in the PRC prior to the date of this prospectus, we have included the condensed consolidated statement of financial position as of September 30, 2013, the condensed consolidated statement of the comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows, each for the nine months ended September 30, 2013, together with selected explanatory notes of our Group prepared in accordance with IFRS in Appendix II to this prospectus. KPMG, our independent reporting accountants, have conducted a review on such financial information in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.

Assets

As of September 30, 2013, our total assets amounted to RMB2,474.3 billion, an increase of 8.6% from RMB2,279.3 billion as of December 31, 2012, primarily due to the increases in (i) loans and advances to customers, (ii) investments, and (iii) cash and deposits with the central bank, partially offset by a decrease in financial assets held under resale agreements and placements with banks and other financial institutions. The increase in our loans and advances to customers during the nine months ended September 30, 2013 was in line with the overall growth of our business. The increase in our investments was primarily attributable to the increase in our debt securities classified as receivables. The increase in our cash and deposits with the central bank was primarily attributable to the increase in the required deposit reserve as a result of increase in our deposits from customers. The decrease in our net financial assets held under resale agreements and placements with banks and other financial institutions was primarily due to our liquidity management needs.

	As of December 31,		As of September 30,	
	2012		2013	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
	(unaudited)			
Total loans and advances to customers	1,023,187	44.9%	1,139,398	46.0%
Less: Allowance for impairment losses	(25,856)	(1.2)	(23,853)	(1.0)
Loans and advances to customers, net	997,331	43.7	1,115,545	45.0
Investments, net ⁽¹⁾	478,384	21.0	518,825	21.0
Financial assets held under resale agreements and placements with banks and other financial institutions, net	366,705	16.1	343,247	13.9
Cash and deposits with the central bank	285,478	12.5	325,432	13.2
Deposits with banks and other financial institutions, net	47,019	2.1	55,231	2.2
Other assets ⁽²⁾	104,378	4.6	116,064	4.7
Total assets	2,279,295	100.0%	2,474,344	100.0%

Notes:

- (1) Consist of debt securities (net), equity instruments (net), fixed-rate mortgages and debt securities classified as receivables.
- (2) Consist of interest receivables, positive fair value of derivatives, fixed assets, intangible assets, deferred tax assets, goodwill and other assets (including assets held for wealth management products).

ASSETS AND LIABILITIES

Loans and Advances to Customers

Our total loans and advances to customers increased by 11.4% to RMB1,139,398 million as of September 30, 2013 from RMB1,023,187 million as of December 31, 2012, primarily due to the increases in our corporate loans and our retail loans during this period.

Distribution of Loans by Business Line

The following table sets forth, as of the dates indicated, our loans and advances to customers by business line. For a description of the loan products we offer, see “Business – Our Principal Businesses.”

	As of December 31,		As of September 30,	
	2012		2013	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
	(unaudited)			
Corporate loans	699,090	68.4%	750,729	65.9%
Discounted bills	12,643	1.2	12,231	1.1
Retail loans	311,454	30.4	376,438	33.0
Total loans and advances to customers ...	<u>1,023,187</u>	<u>100.0%</u>	<u>1,139,398</u>	<u>100.0%</u>

Our corporate loans increased by 7.4% to RMB750,729 million as of September 30, 2013 from RMB699,090 million as of December 31, 2012, primarily due to the steady increase in the credit demand of our customers in line with the growth of the PRC economy. Our discounted bills decreased by 3.3% to RMB12,231 million as of September 30, 2013 from RMB12,643 million as of December 31, 2012, primarily due to the adjustment of our corporate loan portfolio. Our retail loans increased by 20.9% to RMB376,438 million as of September 30, 2013 from RMB311,454 million as of December 31, 2012, primarily due to the increase in our micro-enterprise personal loans and credit card loans.

Borrower Concentration

The following table sets forth, as of September 30, 2013, our loan balance to our ten largest single-borrowers, all of which were classified as performing loans at that date.

As of September 30, 2013				
	Industry	Amount	% of total loans	% of regulatory capital ⁽¹⁾
	(in millions of RMB, except percentages)			
Borrower A	Transportation, storage and postal services	6,373	0.6%	4.0%
Borrower B	Public administration and social organization	3,906	0.4	2.4
Borrower C	Transportation, storage and postal services	3,380	0.3	2.1
Borrower D	Real estate	3,039	0.3	1.9
Borrower E	Leasing and commercial services	2,976	0.3	1.9
Borrower F	Real estate	2,650	0.2	1.7
Borrower G	Real estate	2,650	0.2	1.7
Borrower H	Transportation, storage and postal services	2,610	0.2	1.6
Borrower I	Transportation, storage and postal services	2,500	0.2	1.6
Borrower J	Wholesale and retail	2,473	0.2	1.5
Total		<u>32,557</u>	<u>2.9%</u>	<u>20.4%</u>

Note:

- (1) Represents loan balance as a percentage of our regulatory capital. For the calculation of our regulatory capital as of September 30, 2013, see “Financial Information – Capital Resources – Capital Adequacy”.

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The following table sets forth, as of September 30, 2013, our credit exposure to our ten largest single group-borrowers.

As of September 30, 2013				
	Industry	Amount	% of total loans	% of regulatory capital ⁽¹⁾
(in millions of RMB, except percentages)				
Group A	Production and supply of power, gas and water	11,420	1.0%	7.1%
Group B	Transportation, storage and postal services	10,659	1.0	6.7
Group C	Manufacturing	9,443	0.8	5.9
Group D	Production and supply of power, gas and water	8,714	0.8	5.5
Group E	Construction	8,500	0.7	5.3
Group F	Construction	8,323	0.7	5.2
Group G	Transportation, storage and postal services	7,272	0.7	4.5
Group H	Manufacturing	6,960	0.6	4.4
Group I	Wholesale and retail	6,951	0.6	4.3
Group J	Wholesale and retail	6,801	0.6	4.3
Total		<u>85,043</u>	<u>7.5%</u>	<u>53.2%</u>

Note:

- (1) Represents credit exposure as a percentage of our regulatory capital. For the calculation of our regulatory capital as of September 30, 2013, see “Financial Information – Capital Resources – Capital Adequacy”.

Asset Quality of Our Loans to Customers

Distribution of Loans by Loan Classification

The following table sets forth, as of the dates indicated, the distribution of our loan portfolio by the five-category loan classification. Under our five-category loan classification system, our non-performing loans are classified as substandard, doubtful or loss, as applicable.

	As of December 31,		As of September 30,	
	2012		2013	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
(unaudited)				
Normal	1,001,284	97.9%	1,111,581	97.6%
Special mention	14,290	1.4	18,453	1.6
Subtotal	<u>1,015,574</u>	<u>99.3</u>	<u>1,130,034</u>	<u>99.2</u>
Substandard	3,431	0.3	4,724	0.4
Doubtful	1,975	0.2	2,951	0.3
Loss	2,207	0.2	1,689	0.1
Subtotal	<u>7,613</u>	<u>0.7</u>	<u>9,364</u>	<u>0.8</u>
Total loans to customers	<u>1,023,187</u>	<u>100.0%</u>	<u>1,139,398</u>	<u>100.0%</u>
NPL ratio⁽¹⁾		<u>0.74%</u>		<u>0.82%</u>

Note:

- (1) Calculated by dividing total non-performing loans by total loans and advances to customers.

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The following table sets forth, as of the dates indicated, the distribution of our loans by business line and by the five-category loan classification.

	As of December 31,		As of September 30,	
	2012		2013	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
	(unaudited)			
Corporate loans				
Normal	685,148	67.0%	733,806	64.4%
Special mention.....	7,929	0.8	9,886	0.9
Substandard	2,912	0.3	4,034	0.4
Doubtful.....	1,643	0.2	2,477	0.2
Loss	1,458	0.1	526	0.0
Subtotal	<u>699,090</u>	<u>68.4</u>	<u>750,729</u>	<u>65.9</u>
NPL ratio ⁽¹⁾		0.86%		0.94%
Discounted bills				
Normal	12,643	1.2	12,225	1.1
Special mention.....	-	-	6	0.0
Substandard	-	-	-	-
Doubtful	-	-	-	-
Loss	-	-	-	-
Subtotal	<u>12,643</u>	<u>1.2</u>	<u>12,231</u>	<u>1.1</u>
NPL ratio ⁽¹⁾		-		-
Retail loans				
Normal	303,493	29.7	365,550	32.1
Special mention.....	6,361	0.6	8,561	0.7
Substandard	519	0.0	690	0.1
Doubtful.....	332	0.0	474	0.0
Loss	749	0.1	1,163	0.1
Subtotal	<u>311,454</u>	<u>30.4</u>	<u>376,438</u>	<u>33.0</u>
NPL ratio ⁽¹⁾		0.51%		0.62%
Total loans and advances to customers....	<u>1,023,187</u>		<u>1,139,398</u>	
NPL ratio⁽²⁾		0.74%		0.82%

Notes:

(1) Calculated by dividing non-performing loans in each category by total loans and advances in that category.

(2) Calculated by dividing total non-performing loans by total loans and advances to customers.

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Our total non-performing loans increased by 23.0% to RMB9,364 million as of September 30, 2013 from RMB7,613 million as of December 31, 2012, while the NPL ratio increased to 0.82% as of September 30, 2013 from 0.74% as of December 31, 2012. The increase in the balance of our non-performing loans from December 31, 2012 to September 30, 2013 was primarily attributable to the negative impact of the volatility of macroeconomic conditions during this period on the financial condition of certain borrowers.

As of September 30, 2013, our corporate loans classified as “special mention” increased by 24.7% to RMB9,886 million from RMB7,929 million as of December 31, 2012. As of September 30, 2013, our corporate loans classified as “substandard” increased by 38.5% to RMB4,034 million from RMB2,912 million as of December 31, 2012. The increases in the balances of corporate loans classified as “special mention” and “substandard” were primarily due to the deterioration in the financial condition and the repayment ability of certain borrowers as a result of the impact of the macroeconomic conditions during this period.

Our retail loans classified as “special mention” increased by 34.6% to RMB8,561 million as of September 30, 2013 from RMB6,361 million as of December 31, 2012, was primarily due to the downgrading of certain micro-enterprise equipment loans as a result of delay in payment by the borrowers who had been negatively affected by macroeconomic conditions. Our retail loans classified as “substandard” amounted to RMB690 million as of September 30, 2013, an increase of 32.9% from RMB519 million as of December 31, 2012, primarily due to the increase in credit card loans classified as such as a result of the expansion of our credit card business.

Changes in the Asset Quality of Our Corporate Loan Portfolio

The following table sets forth, between the dates indicated, the changes in the outstanding balance of our non-performing corporate loans.

	Amount	NPL ratio
	(in millions of RMB, except percentages)	
As of December 31, 2012	6,013	0.86%
Downgrades	6,180	
Upgrades	(68)	
Recoveries	(762)	
Write-offs	(674)	
Disposals	(3,790)	
Non-performing loans arising from newly-granted loans.....	138	
As of September 30, 2013	7,037	0.94%

As of September 30, 2013 and December 31, 2012, the balance of our non-performing corporate loans was RMB7,037 million and RMB6,013 million respectively, with the corresponding NPL ratio for our corporate loans of 0.94% and 0.86% as of such dates. The increases in the balance of our non-performing corporate loans and the NPL ratio of our corporate loans were primarily because certain of our corporate loans were exposed to a higher level of default risk as a result of the volatility of macroeconomic conditions during this period.

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Ten Largest Non-performing Borrowers

The following table sets forth, at September 30, 2013, our borrowers with the ten largest non-performing corporate loan balances outstanding.

As of September 30, 2013					
Borrower	Industry	Amount	Classification	% of total non- performing corporate loans	% of regulatory capital ⁽¹⁾
(in millions of RMB, except percentages)					
Borrower A	Transportation, storage and postal services	290	Substandard	4.1%	0.2%
Borrower B	Leasing and commercial services	249	Doubtful	3.5	0.1
Borrower C	Manufacturing	215	Doubtful	3.1	0.1
Borrower D	Manufacturing	150	Substandard	2.1	0.1
Borrower E	Manufacturing	120	Substandard	1.7	0.1
Borrower F	Wholesale and retail	109	Substandard	1.5	0.1
Borrower G	Wholesale and retail	103	Substandard	1.5	0.1
Borrower H	Manufacturing	98	Substandard	1.4	0.1
Borrower I	Manufacturing	98	Substandard	1.4	0.1
Borrower J	Wholesale and retail	90	Substandard	1.3	0.0
Total		<u>1,522</u>		<u>21.6%</u>	<u>1.0%</u>

Note:

- (1) Represents loan balance as a percentage of our regulatory capital. For the calculation of our regulatory capital as of September 30, 2013, see “Financial Information – Capital Resources – Capital Adequacy.”

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Allowance for Impairment Losses on Loans and Advances to Customers

Distribution of Allowance for Impairment Losses by Loan Classification

The following table sets forth, as of the dates indicated, the distribution of our allowance for impairment losses by loan classification category.

	As of December 31,			As of September 30,		
	2012			2013		
	Amount	% of total	Allowance to loans ⁽¹⁾	Amount	% of total	Allowance to loans ⁽¹⁾
	(in millions of RMB, except percentages)					
	(unaudited)					
Normal	19,170	74.1%	1.91%	16,935	71.0%	1.52%
Special mention	2,067	8.0	14.46	2,246	9.4	12.17
Substandard	1,023	4.0	29.82	1,346	5.6	28.49
Doubtful	1,438	5.6	72.81	1,829	7.7	61.98
Loss.....	2,158	8.3	97.78	1,497	6.3	88.63
Subtotal of allowance for impairment losses on NPLs.....	4,619	17.9	60.67	4,672	19.6	49.89
Total allowance	25,856	100.0%	2.53%	23,853	100.0%	2.09%

Note:

- (1) Calculated by dividing the amount of the allowance for impairment losses on loans in each category by the total amount of loans and advances in that category.

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The following table sets forth, as of the dates indicated, the allocation of our allowance for impairment losses by business line and by loan classification category.

	As of December 31,			As of September 30,		
	2012		Allowance to NPLs ⁽¹⁾	2013		Allowance to NPLs ⁽¹⁾
Amount	% of total	Amount		% of total	Amount	
(in millions of RMB, except percentages)						
(unaudited)						
Corporate loans						
Normal	16,720	64.7%	N/A	14,275	59.8%	N/A
Special mention	1,598	6.2	N/A	1,638	6.9	N/A
Substandard	830	3.2	28.50	1,076	4.5	26.67
Doubtful	1,199	4.7	72.98	1,528	6.4	61.69
Loss.....	<u>1,458</u>	<u>5.6</u>	<u>100.00</u>	<u>522</u>	<u>2.2</u>	<u>99.24</u>
Subtotal	<u>21,805</u>	<u>84.4</u>	<u>362.63</u>	<u>19,039</u>	<u>79.8</u>	<u>270.56</u>
Discounted bills						
Normal	17	0.1	N/A	17	0.1	N/A
Special mention	–	–	N/A	1	0.0	N/A
Substandard	–	–	–	–	–	–
Doubtful	–	–	–	–	–	–
Loss.....	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Subtotal	<u>17</u>	<u>0.1</u>	<u>–</u>	<u>18</u>	<u>0.1</u>	<u>–</u>
Retail loans						
Normal	2,433	9.3	N/A	2,643	11.1	N/A
Special mention	469	1.8	N/A	607	2.5	N/A
Substandard	193	0.8	37.19	270	1.1	39.13
Doubtful	239	0.9	71.99	301	1.3	63.50
Loss.....	<u>700</u>	<u>2.7</u>	<u>93.46</u>	<u>975</u>	<u>4.1</u>	<u>83.83</u>
Subtotal	<u>4,034</u>	<u>15.5</u>	<u>252.13</u>	<u>4,796</u>	<u>20.1</u>	<u>206.10</u>
Total allowance	<u>25,856</u>	<u>100.0%</u>	<u>339.63%</u>	<u>23,853</u>	<u>100.0%</u>	<u>254.73%</u>

Note:

- (1) Calculated by dividing the amount of the allowance for impairment losses on loans in each category by the total amount of non-performing loans in that category.

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Changes in the Allowance for Impairment Losses

The following table sets forth, between the dates indicated, the changes in the allowance for impairment losses on loans and advances to customers.

	<u>As of and for the nine months ended September 30, 2013</u>
	<u>(in millions of RMB) (unaudited)</u>
As of December 31, 2012	25,856
Charge for the period ⁽¹⁾	3,202
Write-offs	(1,560)
Recoveries	144
Unwinding of discount ⁽²⁾	(266)
Disposals	<u>(3,523)</u>
As of September 30, 2013	<u>23,853</u>

Notes:

- (1) Represents total allowance for impairment losses on loans (additions to the allowance for impairment losses on loans), net of write-backs (releases from the allowance for impairment losses on loans).
- (2) Represents the interest income accrued on impaired loans as a result of subsequent increases in their present values due to the passage of time.

Investments

The following table sets forth, as of the dates indicated, the components of our investments.

	<u>As of December 31,</u>		<u>As of September 30,</u>	
	<u>2012</u>		<u>2013</u>	
	<u>Amount</u>	<u>% of total</u>	<u>Amount</u>	<u>% of total</u>
	(in millions of RMB, except percentages)			
	(unaudited)			
Debt Securities				
Held-to-maturity debt securities	96,112	20.1%	101,735	19.6%
Available-for-sale debt securities	91,801	19.2	95,964	18.5
Debt securities at fair value through profit or loss	<u>29,084</u>	<u>6.1</u>	<u>29,630</u>	<u>5.7</u>
Subtotal	<u>216,997</u>	<u>45.4</u>	<u>227,329</u>	<u>43.8</u>
Equity instruments				
Available-for-sale equity investments	100	0.0	100	0.0
Fixed-rate mortgages	369	0.1	277	0.1
Debt securities classified as receivables ⁽¹⁾ ..	<u>261,207</u>	<u>54.5</u>	<u>291,385</u>	<u>56.1</u>
Total investments	<u>478,673</u>	<u>100.0%</u>	<u>519,091</u>	<u>100.0%</u>
Allowance for impairment losses	<u>(289)</u>	—	<u>(266)</u>	—
Investments, net	<u>478,384</u>		<u>518,825</u>	

Note:

- (1) Consist of beneficial interest transfer plans and wealth management products of financial institutions.

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Our total investments increased by 8.4% to RMB519,091 million as of September 30, 2013 from RMB478,673 million as of December 31, 2012, primarily due to an increase in the balance of our debt securities classified as receivables by 11.6% to RMB291,385 million as of September 30, 2013 from RMB261,207 million as of December 31, 2012, primarily due to the adjustment of our investment portfolios to allocate our fund resources to such investments, which generally have higher yields.

Debt Securities

The following table sets forth, as of the dates indicated, our debt securities by issuer type.

	As of December 31,		As of September 30,	
	2012		2013	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
	(unaudited)			
Government bonds	88,279	40.7%	88,821	39.1%
PBOC bills	100	0.0	–	–
Bonds issued by banks and financial institutions in PRC	42,129	19.4	39,918	17.5
Bonds issued by other domestic institutions	85,513	39.4	97,058	42.7
Bonds issued by other banks and financial institutions outside PRC	863	0.4	1,310	0.6
Bonds issued by entities in public sectors and other institutions outside PRC	113	0.1	222	0.1
Total debt securities	<u>216,997</u>	<u>100.0%</u>	<u>227,329</u>	<u>100.0%</u>

The balance of our total debt securities increased by 4.8% to RMB227,329 million as of September 30, 2013 from RMB216,997 million as of December 31, 2012. The increase was primarily attributable to the increase in the balance of our bonds issued by other domestic institutions by 13.5% to RMB97,058 million as of September 30, 2013 from RMB85,513 million as of December 31, 2012, primarily due to the rapid development of short-term commercial paper and medium-term notes, which have become one of the important investment targets in the inter-bank market and enabled us to actively participate in investments in such products based on effective credit risk control.

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Liabilities and Sources of Funds

The following table sets forth, as of the dates indicated, the components of our total liabilities.

	As of December 31,		As of September 30,	
	2012		2013	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
	(unaudited)			
Deposits from customers	1,426,941	65.9%	1,622,107	69.3%
Deposits from banks and other financial institutions	527,561	24.4	512,266	21.9
Placements from banks and other financial institutions and financial assets sold under repurchase agreements	97,490	4.5	106,196	4.5
Debt securities issued	52,700	2.4	45,181	1.9
Other liabilities ⁽¹⁾	60,281	2.8	56,248	2.4
Total liabilities	<u>2,164,973</u>	<u>100.0%</u>	<u>2,341,998</u>	<u>100.0%</u>

Note:

- (1) Consist of negative fair value of derivatives, accrued staff costs, taxes payable, interests payable, provisions and other liabilities (including wealth management fund).

Our total liabilities increased by 8.2% to RMB2,341,998 million as of September 30, 2013 from RMB2,164,973 million as of December 31, 2012, primarily due to the increases in deposits from customers and placements from banks and other financial institutions and financial assets sold under repurchase agreements.

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Deposits from Customers

The following table sets forth, as of the dates indicated, the deposits from customers by product type and customer type.

	As of December 31,		As of September 30,	
	2012		2013	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
	(unaudited)			
Corporate deposits				
Time	476,737	33.4%	570,735	35.2%
Demand	397,626	27.9	377,831	23.3
Subtotal	874,363	61.3	948,566	58.5
Retail deposits				
Time	127,378	8.9	132,361	8.2
Demand ⁽¹⁾	157,302	11.0	191,487	11.8
Subtotal	284,680	19.9	323,848	20.0
Pledged deposits				
Corporate	221,143	15.5	244,169	15.0
Retail	819	0.1	2,316	0.1
Subtotal	221,962	15.6	246,485	15.1
Funds deposited with us for remittance ⁽²⁾ ..	3,319	0.2	2,829	0.2
Structured deposits				
Corporate	14,103	1.0	24,797	1.5
Retail	28,514	2.0	75,582	4.7
Subtotal	42,617	3.0	100,379	6.2
Total deposits from customers	1,426,941	100.0%	1,622,107	100.0%

Notes:

(1) Retail demand deposits as of December 31, 2012 included liabilities under principal-guaranteed wealth management products.

(2) Consist of only corporate deposits.

Our total deposits from customers increased by 13.7% to RMB1,622,107 million as of September 30, 2013 from RMB1,426,941 million as of December 31, 2012, primarily due to the increases in our corporate deposits, retail deposits, pledged deposits and structured deposits.

Our corporate deposits increased by 8.5% to RMB948,566 million as of September 30, 2013 from RMB874,363 million as of December 31, 2012, primarily due (i) our on-going efforts to grow corporate deposits by way of product innovation, (ii) our expanded branch network and improved customer service to attract and maintain our corporate customers and (iii) our enhanced marketing efforts to our key corporate customers. Our retail deposits increased by 13.8% to RMB323,848 million as of September 30, 2013 from RMB284,680 million as of December 31, 2012, primarily due to (i) our efforts in product innovation and cross-selling with our wealth management, credit card and retail loan products, which resulted in the expansion of the customer base of our retail deposits, and (ii) the enhancement of our distribution channels, including the expansion of our branch network and our electronic banking system. Our pledged deposits increased by 11.0% to RMB246,485 million as of September 30, 2013 from RMB221,962 million as of December 31, 2012, primarily due to an increase in the scale of our bank acceptance bills business. Our structured deposits increased by 135.5% to RMB100,379 million as of September 30, 2013 from RMB42,617 million as of December 31, 2012, primarily due to (i) increasing market demands for such products, and (ii) our strategy to promote structured wealth management products.