ASSETS

Our total assets as of December 31, 2004 were RMB1,145,455 million, representing an increase of 23.7% from RMB925,920 million as of December 31, 2003. Our December 31, 2003 total assets represented an increase of 26.5% from RMB732,003 million as of December 31, 2002. The four principal components of our assets consist of loans and advances to customers, investment securities, cash and balances with central banks, and amounts due from other banks and financial institutions. As of December 31, 2004, the balance of our loans and advances to customers, investment securities, cash and balances with central banks, and amounts due from other banks and financial institutions constituted 55.1%, 21.8%, 11.2% and 7.8%, respectively, of our total assets. The following table sets forth the balances of significant components of our total assets as of the dates indicated:

	As of December 31,		
	2002	2003	2004
	(in millions of RMB)		
Loans and advances to customers			
Corporate loans[(1)]	372,912	464,534	509,011
Retail loans[(1)]	36,298	60,187	85,777
Discounted bills[(1)]	16,325	24,038	43,996
Interest receivables	1,228	1,184	1,274
Gross amount of loans and advances to customers before allowance for impairment, or gross loans	426,763	549,943	640,058
Allowance for impairment losses	(31,610)	(33,268)	(8,446)
Loans and advances to customers	395,153	516,675	631,612
Investment securities	116,638	148,078	249,854
Cash and balances with central banks	83,310	113,072	128,501
Due from other banks and financial institutions	97,293	99,935	88,923
Other assets	39,609	48,160	46,565
Total assets	732,003	925,920	1,145,455

(1) Amounts of corporate loans, retail loans and discounted bills are before allowance for impairment.

Loans and Advances to Customers

As of December 31, 2004, our corporate loans (including discounted bills) and retail loans represented approximately 86.6% and 13.4%, respectively, of the gross loans excluding interest receivables. While our corporate banking business remains our core banking business, we believe that the PRC retail banking sector continues to offer significant growth opportunities. As part of our growth strategy, we have taken, and will continue to take, various initiatives to enhance our retail banking business. Our retail loans increased 42.5% to RMB85,777 million as of December 31, 2004 from RMB60,187 million as of December 31, 2003. Our December 31, 2003 retail loans represented an increase of 65.8% from RMB36,298 million as of December 31, 2002. See the section headed "Business – Our Strategy". Unless otherwise stated, all amounts of corporate loans, retail loans and discounted bills set forth in this section represent amounts before allowance for impairment.

Our loan portfolio represents a significant portion of our assets and accounted for 55.1% of our total assets as of December 31, 2004. The balance of our loans and advances to customers net of allowance for impairment losses increased 30.8% from RMB395,153 million as of December 31, 2002 to RMB516,675 million as of December 31, 2003 and increased a further 22.3% to RMB631,612 million as of December 31, 2004.

Loan Concentration by Industry and Product

Our corporate loan portfolio represents a broad range of industries, but is concentrated in particular in the manufacturing, trading, real estate, transportation and utilities sectors. The following table sets forth our corporate loan portfolio by industry and as a percentage of our corporate loan portfolio as of the dates indicated:

	As of December 31,					
	2002		2003		2004	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Manufacturing						
Steel	14,261	3.8%	15,378	3.3%	19,267	3.8%
Machinery	18,662	5.0	17,412	3.7	18,711	3.7
Electronics	12,111	3.2	21,847	4.7	24,001	4.7
Petroleum and chemical	17,105	4.6	22,240	4.8	27,929	5.5
Textile	12,441	3.3	16,659	3.6	18,850	3.7
Other manufacturing[(1)]	47,286	12.7	64,099	13.8	71,263	14.0
Total manufacturing	121,866	32.7	157,635	33.9	180,021	35.4
Trading	57,942	15.5	69,947	15.1	67,846	13.3
Real estate	47,368	12.7	53,970	11.6	63,321	12.4
Transportation	23,760	6.4	32,806	7.1	43,436	8.5
Services	18,777	5.0	28,530	6.1	33,978	6.7
Post and telecommunications	13,082	3.5	14,470	3.1	15,114	3.0
Construction	12,140	3.3	17,124	3.7	20,916	4.1
Utilities	15,975	4.3	24,723	5.3	36,125	7.1
Education and scientific research	12,127	3.3	19,825	4.3	26,367	5.2
Agriculture	2,684	0.7	4,630	1.0	2,082	0.4
Non-banking financial institutions	5,892	1.6	2,193	0.5	8,063	1.6
Others	41,299	11.1	38,681	8.3	11,742	2.3
Total corporate loans	372,912	100.0%	464,534	100.0%	509,011	100.0%

(1) Includes, among others, light industry, food processing, pharmaceutical and non-ferrous metal industry.

Our retail loan portfolio consists primarily of mortgage loans, car loans and working capital loans. The following table sets forth our retail loan portfolio by products and as a percentage of our retail loan portfolio as of the dates indicated:

	As of December 31,					
	2002		2003		2004	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Mortgage loans	26,306	72.5%	42,596	70.8%	63,978	74.6%
Car loans	4,120	11.4	6,156	10.2	5,113	6.0
Medium- and long-term working capital loans	3,168	8.7	7,263	12.1	10,821	12.6
Short-term working capital loans	1,325	3.7	2,614	4.3	3,718	4.3
Credit card advances	36	0.1	43	0.1	107	0.1
Others[(1)]	1,343	3.7	1,515	2.5	2,040	2.4
Total retail loans	36,298	100.0%	60,187	100.0%	85,777	100.0%

(1) Includes, among others, education and durable consumer goods loans.

Loans to the manufacturing, trading and real estate sectors generally account for a significant portion of our corporate loans. In the aggregate, they accounted for approximately 61.1% our corporate loans as of December 31, 2004. No other sector individually accounted for more than 10% of our corporate loans as of December 31, 2004. The following discussion sets forth information with respect to the most significant concentrations of our corporate loans by major industry classification.

Manufacturing. Our largest loan concentration is in the manufacturing sector, which represented 28.2% of our gross loans excluding interest receivables and 35.4% of our corporate loans as of December 31, 2004. As of December 31, 2004, within the manufacturing sector, loans to the petrochemical, electronics, textile, steel and machinery sectors represented 4.4%, 3.8%, 3.0%, 3.0% and 2.9%, respectively, of our gross loans excluding interest receivables and 5.5%, 4.7%, 3.7%, 3.8% and 3.7%, respectively, of our corporate loans. Our loans to the manufacturing sector increased 29.4% from RMB121,866 million as of December 31, 2002 to RMB157,635 million as of December 31, 2003 and increased a further 14.2% to RMB180,021 million as of December 31, 2004. These increases were primarily due to increased lending to customers in the manufacturing sector, in particular, the petrochemical, electronics and steel industries.

Trading. Our trading loan portfolio consists primarily of loans to trading companies engaged in wholesale and retail businesses. Loans to the trading sector accounted for 10.6% of our gross loans excluding interest receivables and 13.3% of our corporate loans as of December 31, 2004. Our loans to the trading sector decreased 3.0% to RMB67,846 million as of December 31, 2004 from RMB69,947 million as of December 31, 2003. This decrease was principally a result of the disposals of our impaired loans in the trading sector as part of our financial restructuring in June 2004 as well as our more rigorous loan approval procedures for the trading sector. See the section headed “Our Reorganization and Restructuring”.

Real estate. Our real estate loan portfolio consists primarily of loans to real estate developers for various types of projects, including residential housing, office buildings and other properties. Loans to the real estate sector accounted for 9.9% of our gross loans excluding interest receivables and 12.4% of our corporate loans as of December 31, 2004. Our loans to the real estate sector increased 13.9% from RMB47,368 million as of December 31, 2002 to RMB53,970 million as of December 31, 2003 and increased a further 17.3% to RMB63,321 million as of December 31, 2004. These increases were primarily due to the strong growth of the real estate development sector resulting from the continued economic growth in the PRC.

Transportation. Our transportation loan portfolio consists primarily of loans to enterprises engaged in transportation projects, including roads, railways and air transportation. Loans to the transportation sector accounted for 6.8% of our gross loans excluding interest receivables and 8.5% of our corporate loans as of December 31, 2004. Our loans to the transportation sector increased 38.1% from RMB23,760 million as of December 31, 2002 to RMB32,806 million as of December 31, 2003 and increased a further 32.4% to RMB43,436 million as of December 31, 2004. These increases were principally a result of our focus on the transportation sector as well as the significant demand for investment in the transportation sector in the PRC.

Utilities. Our utilities loan portfolio consists primarily of loans to public utility companies that engage in power generation, water purification and infrastructure construction. Loans to the utilities sector accounted for 5.7% of our gross loans excluding interest receivables and 7.1% of our corporate loans as of December 31, 2004. Our loans to the utilities sector increased 54.8% from RMB15,975 million as of December 31, 2002 to RMB24,723 million as of December 31, 2003 and increased a further 46.1% to RMB36,125 million as of December 31, 2004. These increases were primarily due to our focus on the utilities sector, in particular power generation.

Retail loans. Our retail loans, which represented 13.4% of our gross loans excluding interest receivables as of December 31, 2004, are typically made to individuals for the purchase of, among others, housing, automobiles and commercial properties. Mortgage loans represented for 74.6% of our retail loans as of December 31, 2004. Our mortgage loans increased 61.9% from RMB26,306 million as of December 31, 2002 to RMB42,596 million as of December 31, 2003 and increased a further 50.2% to RMB63,978 million as of December 31, 2004. These increases were primarily due to the continued growth of the overall mortgage loan market resulting from the continued economic growth in the PRC as well as our efforts in developing mortgage loan business. Car loans represented 0.8% of our gross loans excluding interest receivables as of December 31, 2004, and 6.0% of our retail loans as of December 31, 2004. Our car loans decreased 16.9% to RMB5,113 million as of December 31, 2004 from RMB6,156 million as of December 31, 2003. This decrease was primarily due to our policy to reduce our exposure to car loans due to the relatively high risks associated with car loans in the PRC.

Discounted bills. We offer bill discounting by providing our customers with cash for their bills of exchange accepted by other financial institutions as well as corporations. Discounted bills represented 6.9% of our gross loans excluding interest receivables as of December 31, 2004. Discounted bills increased 47.2% from RMB16,325 million as of December 31, 2002 to RMB24,038 million as of December 31, 2003 and increased a further 83.0% to RMB43,996 million as of December 31, 2004. These increases primarily due to the growth in the bill discounting business in the PRC as well as our efforts in expanding our bill discounting business, which carries lower credit risks.

Maturity of Loans

The following table sets forth the scheduled maturities (time remaining until maturity) of our loan portfolio as of the date indicated. For loans which are repayable by installments, only the portion of the loan which is actually overdue is reported as overdue. Any part of the loan which is not due is reported according to residual maturity. The amounts are presented before deduction for allowance for impairment losses on loans and advances.

	As of December 31, 2004				
	Within 1 year	After 1 year and within 5 years	After 5 years	Overdue	Total
	(in millions of RMB)				
Corporate loans	382,902	84,027	26,129	15,953	509,011
Retail loans	8,733	14,285	62,322	437	85,777
Discounted bills	43,994	—	—	2	43,996
Gross loans excluding interest receivables	435,629	98,312	88,451	16,392	638,784

A significant portion of our gross loans excluding interest receivables consists of loans that are due within one year. As of December 31, 2004, these loans represented approximately 68% of our gross loans excluding interest receivables on such dates. A substantial portion of our short-term loans is renewed or rolled over upon maturity, and these loans have been a stable source of our long-term interest income. When a short-term loan is renewed, the borrower needs to re-apply for a new loan. The new loan application will undergo the standard credit approval process of our Company. In general, the borrower needs to repay the outstanding principal and interest before re-applying for a new loan. When a short-term loan is rolled over, the borrower does not need to re-apply for a loan.

Borrower Concentration

Under the current PRC banking regulations, the aggregate amount of a bank's loan exposure to any single borrower may not exceed 10% of the bank's net regulatory capital, and the aggregate amount of our loan exposure to the top ten borrowers may not exceed 50% of the bank's net regulatory capital. We are currently in compliance with these regulatory requirements. See the section headed "Supervision and Regulation – Other Operational Ratios". The following tables set forth our ten largest loan exposures as of the dates indicated:

	As of December 31, 2004			
	Industry category	Company category	Outstanding amount	Internal credit rating[2]
	(in millions of RMB, except percentages)			
Customer A	Petrochemical	Joint-stock	4,796	2
Customer B	Services	State-owned	2,855	5
Customer C	Transportation	State-owned	2,800	5
Customer D	Petrochemical	State-owned	2,000	3
Customer E	Transportation	State-owned	1,968	5
Customer F	Post and telecommunications	State-owned	1,950	4
Customer G	Trading	State-owned	1,749	4
Customer H	Petrochemical	Sino-foreign joint venture	1,680	5
Customer I	Steel	State-owned	1,661	5
Customer J	Transportation	Sino-foreign joint venture	1,618	5
Total top ten			23,077	

(1) As of December 31, 2004, Customer A and Customer I had discounted bills in the amount of RMB189 million and RMB605 million, respectively. As of the same date, none of the other top ten customers had discounted bills.

(2) See the section headed "Business – Risk Management and Internal Controls".

	As of December 31, 2003			
	Industry category	Company category	Outstanding amount	Internal credit rating(2)
	(in millions of RMB, except percentages)			
Customer A	Petrochemical	Joint-stock	3,841	3
Customer B	Utilities	State-owned	3,555	5
Customer C	Transportation	State-owned	3,260	5
Customer D	Post and telecommunications	State-owned	2,110	4
Customer E	Transportation	Sino-foreign joint venture	2,023	5
Customer F	Oils and fats processing	Limited liability	1,650	4
Customer G	Real estate	Joint-stock	1,446	5
Customer H	Telecommunication equipment manufacturing	Collectively-owned	1,136	9
Customer I	Utilities	State-owned	1,100	3
Customer J	Transportation	State-owned	1,100	5
Total top ten			21,221	

(1) As of December 31, 2003, Customer A had discounted bills in the amount of RMB532 million. As of the same date, none of the other top ten customers had discounted bills.
(2) See the section headed "Business – Risk Management and Internal Controls".

	As of December 31, 2002			
	Industry category	Company category	Outstanding amount	Internal credit rating(2)
	(in millions of RMB, except percentages)			
Customer A	Petrochemical	Joint-stock	2,930	N/A
Customer B	Transportation	State-owned	2,062	N/A
Customer C	Post and telecommunications	State-owned	2,010	N/A
Customer D	Utilities	State-owned	1,800	N/A
Customer E	Utilities	State-owned	1,500	N/A
Customer F	Petrochemical	Limited liability	1,500	N/A
Customer G	Real estate	Joint-stock	1,479	N/A
Customer H	Transportation	State-owned	1,300	N/A
Customer I	Oils and fats processing	Limited liability	1,150	N/A
Customer J	Transportation	State-owned	1,100	N/A
Total top ten			16,830	

(1) As of December 31, 2002, Customer A had discounted bills in the amount of RMB129 million. As of the same date, none of the other top ten customers had discounted bills.
(2) There was no internal credit rating in 2002.

To comply with the relevant regulatory requirements and control our credit risks associated with borrower concentration, we have established a single consolidated credit limit for each of our customers for products and services we provide. The single credit limit is allocated among the different lines of business of such customer. See the section headed "Business – Risk Management". As of December 31, 2004, our loans outstanding to our single largest customer and our ten largest customers represent a substantial amount of our net regulatory capital. We are currently in compliance with the regulatory requirements on borrower concentration.

As of December 31, 2004, approximately RMB330 million of loans to customer H were guaranteed by customer A.

Loan Concentration by Geography

The following table sets forth the geographic distribution of our gross loans excluding interest receivables as of the dates indicated:

	As of December 31,		
	2002	2003	2004
	(in millions of RMB)		
Northern China(1)	50,445	74,445	105,139
Northern-eastern China(2)	46,793	55,371	50,423
Eastern China(3)	161,881	217,230	260,251
Central & Southern China(4)	89,555	111,302	126,306
Western China(5)	48,382	58,442	60,213
Overseas(6)	28,480	31,969	36,452
Gross loans excluding interest receivables	425,535	548,759	638,784

(1) Includes Beijing Municipality, Tianjin Municipality, Hebei Province, Shanxi Province, Inner Mongolia Autonomous Region.
(2) Includes Liaoning Province, Jilin Province and Heilongjiang Province.
(3) Includes Shanghai Municipality, Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province and Shandong Province.
(4) Includes Henan Province, Hunan Province, Hubei Province, Guangdong Province, Guangxi Autonomous Region and Hainan Province.
(5) Includes Chongqing Municipality, Sichuan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Gansu Province and Xinjiang Autonomous Region.
(6) Includes Hong Kong, New York, Singapore and Tokyo.

We have been focusing on the more economically developed areas, in particular, the Yangtze River Delta, the Bohai Rim Economic Zone and the Pearl River Delta. Our loans to borrowers from the Yangtze River Delta, the Bohai Rim Economic Zone and the Pearl River Delta accounted for 63.4%, 61.4% and 58.7% of our gross loans excluding interest receivables as of December 31, 2004, 2003 and 2002, respectively. The increase of our relative loan distributions to the Yangtze River Delta, the Bohai Rim Economic Zone and the Pearl River Delta was primarily due to our focus on these areas.

Distribution by Loan Size

The following table sets forth the aggregate balances of our outstanding corporate loans, including discounted bills, by outstanding loan amount, as of the dates indicated. As of December 31, 2004, 43.2% and 20.5% of the aggregate balances of our gross loans excluding interest receivables were over RMB100 million and RMB300 million, respectively.

	As of December 31, 2004		
	Aggregate outstanding loan amount (in millions of RMB)	% of total	Number of companies
Up to and including RMB10 million	60,656	11.0%	14,698
Above RMB10 million up to and including RMB50 million	144,394	26.1	5,615
Above RMB50 million up to and including RMB100 million	109,322	19.8	1,461
Above RMB100 million up to and including RMB300 million	125,368	22.6	715
Above RMB300 million	113,267	20.5	161
Total	553,007	100.0%	22,650

Loan Concentration by Collateral Type

As of December 31, 2004, we had more than 70% of our gross loans excluding interest receivables that were secured by guarantees and/or collateral. We typically obtain a first priority security interest in collateral, although we may, in limited circumstances, accept a junior ranked security interest. The types of collateral we accept include, among others, real estate, automobiles, machinery and other movable property, government bonds and finance bonds. Typically, we use external appraisal professionals, who apply various valuation methodologies, to perform appraisal valuations of the collateral. We generally lend up to 70% of the appraised value of real estate, machinery and other movable property, up to 70% of the sale price of automobiles and up to 60% of the value of raw materials and products.

We monitor the value of our borrowers' collateral and perform appraisal valuations to determine the value of such collateral. At any time when we believe there has been a significant drop in the value of the collateral, we will reassess and mark to market the value of the collateral. We typically require borrowers whose collateral value declines to a certain level to provide us with additional collateral.

Our loan portfolio is primarily divided, in terms of collateral type, into the following categories: loans backed by guarantees, pledged loans and discounted bills, loans secured by collateral and unsecured loans. Pledged loans are loans secured by collateral, the possession of which has been transferred to us. As of December 31, 2003, approximately 45%, 11%, 25% and 19% of our gross loans excluding interest receivables were loans backed by guarantees, pledged loans and discounted bills, loans secured by collateral and unsecured loans, respectively. As of December 31, 2004, approximately 39%, 13%, 28% and 20% of our gross loans excluding interest receivables were loans backed by guarantees, pledged loans and discounted bills, loans secured by collateral and unsecured loans, respectively.

The percentage of our loans backed by guarantees decreased from 2003 to 2004 which was primarily due to our policy to reduce the level of loans backed by guarantees and focus more on the cash flow of the borrowers themselves. As of December 31, 2004, a significant majority of our loans backed by guarantees were guaranteed by corporations.

As of December 31, 2004, approximately 20% of our gross loans excluding interest receivables, were unsecured loans. Unsecured loans are generally granted to large corporations in our primary focus industries. These corporations generally have good credit histories and repayment abilities and have credit ratings of between one and five in our internal 10-class credit rating system. See the section headed "Business – Risk Management and Internal Controls". We do not generally grant unsecured loans with a maturity of more than three years.

As of December 31, 2004, a significant majority of our loans secured by collateral was secured by real estate and land use rights.

Loan Distribution by Currency

We provide loans to our customers primarily in Renminbi and to a lesser extent certain foreign currencies. The following table sets forth our loan distribution by Renminbi and foreign currencies as of the dates indicated:

	As of December 31,					
	2002		2003		2004	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions, except percentages)					
RMB	381,278	89.6%	483,728	88.1%	568,728	89.0%
US$	20,022	4.7	34,961	6.4	37,279	5.8
HK$	21,535	5.1	23,593	4.3	26,420	4.1
Others	2,700	0.6	6,477	1.2	6,356	1.0
Gross loans excluding interest receivables	425,535	100.0%	548,759	100.0%	638,784	100.0%

Loan Quality

We intend to improve our loan quality and to generate stable profits while maintaining our credit risk exposure within acceptable parameters through a diversified loan portfolio. We have established an integrated credit risk management system with comprehensive policies and procedures to identify, measure, monitor and control credit risk across our organization. See the section headed "Business – Risk Management and Internal Controls".

Impaired loans are a concept under IFRS, which has been adopted by our Company in the preparation of our financial statements set forth in Annex I to this prospectus. A loan is impaired if there is objective evidence that we will not be able to collect all amounts due according to the original contractual terms of such loan. See the section headed "Financial Information – Critical Accounting Policies – Allowance for Losses on Loans and Advances". Non-performing loan is used to refer to a loan that is classified as "substandard", "doubtful" or "loss" under the Loan Classification Principles, the five-category loan classification system established by the PBOC. See the section headed "Supervision and Regulation".

See Item 5(a) of Appendix II for an aging profile of our loan portfolio as of December 31, 2002, 2003 and 2004.

Overdue loans are (1) for loans with a specific expiry date – these loans are treated as overdue where the principal or interest on them are overdue and remain unpaid as at the end of the financial period; and (2) for loans repayable by regular installments (e.g., residential mortgage loans) – only those installments that have become due but remain unpaid as at the end of the financial period are treated as overdue. Such treatment is the general PRC banking practice as currently adopted by other PRC commercial banks. This treatment is different from the international market practice, which normally specifies that the whole amount of a loan should be classified as overdue when certain installments have overdue. However, it is our practice that, if the overdue status of a loan meets the criteria of "substandard" or below, not only the installments that are overdue but also the rest of installments that are not yet due will be classified as "substandard" or below.

Impairment loss is immediately recognized in the financial statements and is calculated as the difference between the carrying value and the recoverable amount of the loan, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the loan. Interest income is thereafter recognized in the financial statements based on the interest rate that has been used to calculate the recoverable amount.

The following table sets forth certain information regarding our individually identified loans with impairment and our loans past due 90 days or more as of the dates indicated:

	As of December 31,		
	2002	2003	2004
	(in millions of RMB, except percentages)		
Individually identified loans with impairment	71,106	65,199	19,193
Loans past due 90 days or more	48,191	49,756	11,178
Individually identified loans with impairment as % of total loans	16.66%	11.86%	3.00%

The following table sets forth changes in our individually identified loans with impairment for the periods indicated:

	Year ended December 31,	
	2003	2004
	(in millions of RMB)	
Balance at beginning of period	71,106	65,199
Increase of Individually identified loans with impairment	7,987	12,306
Other adjustments (net)[1]	(13,894)	(58,312)
Balance at end of period	65,199	19,193

(1) Includes upgrades, write-offs, cash recovery and collateral recovery.

Impaired Loans by Industry

The following table sets forth our impaired corporate loans by industry and as a percentage of our total impaired corporate loans as of the dates indicated:

	As of December 31,								
	2002			2003			2004		
	Amount	% of impaired corporate loans	% of loans to the industry	Amount	% of impaired corporate loans	% of loans to the industry	Amount	% of impaired corporate loans	% of loans to the industry
	(in millions of RMB, except percentages)								
Manufacturing:									
Steel	1,212	1.7%	8.5%	1,377	2.1%	9.0%	341	1.8%	1.8%
Machinery	4,272	6.0	22.9%	3,164	4.9	18.2%	710	3.8	3.8%
Electronics	3,638	5.1	30.0%	4,288	6.6	19.6%	618	3.3	2.6%
Petroleum and chemicals	2,794	3.9	16.3%	2,760	4.2	12.4%	904	4.8	3.2%
Textiles	3,616	5.1	29.1%	3,053	4.7	18.3%	670	3.6	3.6%
Other manufacturing(1)	8,803	12.4	18.6%	8,199	12.6	12.8%	3,301	17.7	4.6%
Total manufacturing	24,335	34.2	20.0%	22,841	35.1	14.5%	6,544	35.0	3.6%
Trading	21,635	30.5	37.3%	21,927	33.7	31.3%	5,888	31.5	8.7%
Real estate	6,956	9.8	14.7%	8,802	13.5	16.3%	2,847	15.2	4.5%
Transportation	652	0.9	2.7%	1,104	1.7	3.4%	317	1.7	0.7%
Services	3,896	5.5	20.7%	2,292	3.5	8.0%	650	3.5	1.9%
Post and telecommunications	193	0.3	1.5%	82	0.1	0.6%	70	0.4	0.5%
Construction	1,723	2.4	14.2%	1,902	2.9	11.1%	573	3.1	2.7%
Utilities	660	0.9	4.1%	806	1.2	3.3%	284	1.5	0.8%
Education and scientific research	590	0.8	4.9%	1,143	1.8	5.8%	976	5.2	3.7%
Agriculture	877	1.2	32.7%	976	1.5	21.1%	94	0.5	4.5%
Non-banking financial institutions	141	0.2	2.4%	120	0.2	5.5%	229	1.2	2.8%
Others	9,389	13.2	22.7%	2,988	4.6	7.7%	219	1.2	1.9%
Total impaired corporate loans	71,047	100.0%	19.1%	64,983	100.0%	14.0%	18,691	100.0%	3.7%

(1) Includes, among others, light industry, food processing, pharmaceuticals and non-ferrous metals.

A significant portion of our impaired corporate loans is concentrated in trading and real estate loans. As of December 31, 2004, impaired loans in the trading sector and the real estate sector represented 31.5% and 15.2%, respectively, of our impaired corporate loans. The impaired loan concentration in the real estate sector is primarily due to the high level of lending to the real estate sector as well as the recent macroeconomic measures undertaken by the PRC government to manage the growth of the PRC economy. We have recently adopted several measures as part of our on-going efforts to manage our loan risk in the real estate sector, including, among others, imposing stringent policies on selecting customers with a better credit profile, implementing close loan monitoring and raising the interest rates for certain loans. The impaired loan concentration in the trading sector is primarily due to a change in the government policy that allowed manufacturers to conduct trading activities on their own instead of through trading companies as well as the high level of lending to the trading sector. We have tried to manage our credit risk in the trading sector by paying close attention to the credit profile of the counterparties and the credit risks associated with different trading products. As of December 31, 2004, our impaired retail loans amounted to RMB502 million, representing an increase of 132.4% from RMB216 million as of December 31, 2003. This increase was primarily due to increased foreign currency-denominated impaired loans, working capital loans and car loans.

The following table sets forth the geographic distribution of our impaired loans as of the dates indicated:

	As of December 31, 2004
	(in millions of RMB)
Northern China(1)	2,728
North-eastern China(2)	3,537
Eastern China(3)	5,525
Central & Southern China(4)	3,167
Western China(5)	3,537
Overseas(6)	699
Total	19,193

(1) Includes Beijing Municipality, Tianjin Municipality, Hebei Province, Shanxi Province, Inner Mongolia Autonomous Region.
(2) Includes Liaoning Province, Jilin Province and Heilongjiang Province.
(3) Includes Shanghai Municipality, Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province and Shandong Province.
(4) Includes Henan Province, Hunan Province, Hubei Province, Guangdong Province, Guangxi Autonomous Region and Hainan Province.
(5) Includes Chongqing Municipality, Sichuan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Gansu Province and Xinjiang Autonomous Region.
(6) Includes Hong Kong, New York, Singapore and Tokyo.

Provision for Impairment Losses

All loans and advances are recorded when cash is advanced to borrowers. If there is objective evidence that we will not be able to collect all amounts due according to the original contractual terms of loans, we establish a provision for loan impairment. The amount of the provision is the difference between the carrying amount and the recoverable amount. The recoverable amount is the estimated present value of expected cash flows, taking into account the repayment condition of the borrower or the guarantor and amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the loans. The loan loss provision also covers losses where there is objective evidence that losses are present in components of the loan portfolio at the balance sheet date even though these have not been individually identified. These are estimated based upon historical patterns of losses in each component, the credit ratings allocated to the borrowers and the current economic climate in which the borrowers operate. See the section headed "Financial Information – Critical Accounting Policies – Allowance for Losses on Loans and Advances".

The following table sets forth the allowance for individually identified impairment losses and the allowance for collectively assessed losses as of the dates indicated:

	As of December 31,		
	2002	2003	2004
	(in millions of RMB)		
Allowance for individually identified impairment losses	26,853	30,122	4,394
Allowance for collectively assessed losses	4,757	3,146	4,052
Total allowance for impairment losses	31,610	33,268	8,446

The following table sets forth the movements in allowance for impairment losses on loans and advances for the periods indicated:

	Year ended December 31,		
	2002	2003	2004
	(in millions of RMB)		
Balance at beginning of period	44,993	31,610	33,268
Provision for the period	815	4,788	3,041
Loans written off for the period	(14,365)	(3,192)	(928)
Written back on disposal of impaired loans	—	—	(26,935)
Exchange and other adjustments	167	62	—
Balance at end of period	31,610	33,268	8,446

The following table sets forth the movements in allowance for individually identified impairment losses on loans and advances for the periods indicated:

	Year ended December 31,		
	2002	2003	2004
	(in millions of RMB)		
Balance at beginning of period	39,443	26,853	30,122
Provision for the period	1,608	6,399	2,135
Loans written off for the period	(14,365)	(3,192)	(928)
Written back on disposal of impaired loans	—	—	(26,935)
Exchange and other adjustments	167	62	—
Balance at end of period	26,853	30,122	4,394

The following table sets forth the movements in allowance for collectively assessed losses for the periods indicated:

	Year ended December 31,		
	2002	2003	2004
	(in millions of RMB)		
Balance at beginning of period	5,550	4,757	3,146
(Decrease)/increase in provision for loan impairment	(793)	(1,611)	906
Balance at end of period	4,757	3,146	4,052

In 2002, as part of our efforts to strengthen the quality of our loan portfolio, we obtained additional collateral from our borrowers whose loans were non-performing. In 2003, we adopted a more rigorous approach in assessing the value of our collateral, which resulted in a significant increase in the provision for our impaired loans.

All of the loans written off in 2002 were classified as "loss" under the five-category classification system under the Loan Classification Principles. The amount written back on disposal of impaired loans in the year ended December 31, 2004 was RMB26,935 million, which was principally a result of the disposals of our impaired loans as part of our financial restructuring in June 2004.

When a loan is substantially uncollectible, it is written off against the related allowance for impairment losses. Subsequent recoveries are credited to the provision for loan losses in the income statement. If the amount of the impairment losses subsequently decreases due to an event occurring after the write-off, the release of the provision is credited as a reduction of the provision for impairment losses.

Under the old PRC GAAP (1993 version), commercial banks were only required to make loan impairment loss provisions in the amount of 1% of their total loans without accounting for the actual loss of loans, which usually resulted in under-provision for loan impairment losses. The current PRC GAAP, which was created in 2001 based on a revision of the old PRC GAAP, however, provides that all loans should be carried at recoverable value and the amount of allowance for loan impairment loss should fully cover loan impairment losses, which is in principle the same as the requirement under IFRS.

The major difference between PRC GAAP and IFRS on assessing recoverable amounts is that IFRS requires future cash flows be discounted to present value to arrive at the recoverable amount, whereas PRC GAAP is silent in this respect. We calculate the discounted present value for loans when assessing the recoverable value of loans even under PRC GAAP. As a result, our amount of loan loss provision calculated under PRC GAAP and the provision for impairment losses calculated under IFRS were essentially the same in the last three years.

The allowances for impairment losses under PRC GAAP were RMB42,695 million, RMB38,862 million and RMB8,590 million for the years ended December 31, 2002, 2003 and 2004, respectively. These figures were prepared in accordance with PRC GAAP (2001 version) and on an unconsolidated basis. The difference in the allowances for impairment losses for the years ended December 31, 2002 and 2003 between PRC GAAP and IFRS were that loss loans were not written off, pending the PRC authority's approval, under PRC GAAP while such loss loans were written off under IFRS. In addition, the difference on the allowances for impairment losses for the years ended December 31, 2002, 2003 and 2004 under PRC GAAP and IFRS reflected that the intra-group impaired loans were not eliminated as the PRC GAAP amounts were prepared on an unconsolidated basis while the IFRS amounts were prepared on a consolidated basis.

We are currently not able to segregate the balance as well as provision of trade bills separately from loans and advances. We are committed to identify the balance as well as provision of trade bills separately from loans and advances and expect to be able to disclose such amounts by June 30, 2006.

Currently, our provisioning policy under IFRS is primarily based on IAS 39, additional amendments to which are currently being considered by the IASB. Also, banking regulators in certain countries are having on-going discussions with the accounting profession surrounding the subject of loan loss provisions, with a view to reconciling the possible differences between the amount of loan loss provisions suggested by regulatory guidelines and those determined in accordance with the requirements of IAS 39. In addition, the International Financial Reporting Interpretations Committee and other relevant accounting standard-setters and regulators (referred to together as the "Authoritative Interpretive Bodies") have been asked by their constituents to consider providing interpretive guidance relating to the application of IAS 39. Until the IASB issues amendments to IAS 39 or the Authoritative Interpretive Bodies issue authoritative interpretive guidance relating to IAS 39, it is not possible to determine the effect of such amendments or interpretation, which could be material. Future amendments to IAS 39 and interpretive guidance on the application of IAS 39 may be significantly different from our current loan loss provisioning practice and may, as a result, materially affect our financial condition and results of operations.

Provision for Impaired Loans by Borrower Type

As of December 31, 2004, approximately 89.4% of our provision for impaired loans was attributable to corporate loans.

The following table sets forth our provision for impaired loans by borrower type as of the dates indicated:

	As of December 31,					
	2002		2003		2004	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Corporate loans	31,317	99.1%	32,659	98.2%	7,548	89.4%
Retail loans	283	0.9	585	1.8	898	10.6
Discounted bills	10	0.0	24	0.1	—	—
Total	31,610	100.0%	33,268	100.0%	8,446	100.0%

Non-performing Loans

We manage the quality of our loan portfolio under the five-category loan classification guidelines set forth by the PBOC. There is no material difference between the amount of non-performing loans calculated according to applicable PBOC guidelines and the amount of impaired loans calculated according to IFRS.

Applicable PBOC guidelines require PRC commercial banks to classify their loans into the following five asset quality categories: (1) "pass", (2) "special-mention", (3) "substandard", (4) "doubtful" and (5) "loss". A loan is a "non-performing loan" if it is classified as "substandard", "doubtful" or "loss". These classifications are used for calculating the minimum required amount for loan loss provisions for statutory reporting purposes.

The following table sets forth our five-category loan classification as of the dates indicated:

	As of December 31,					
	2002		2003		2004	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Pass	312,368	71.2%	436,329	78.4%	521,203	81.7%
Special-mention	44,937	10.2	50,083	9.0	98,395	15.4
Substandard	24,209	5.5	16,496	3.0	11,742	1.8
Doubtful	41,784	9.5	39,938	7.2	6,582	1.0
Loss	15,301	3.5	13,714	2.5	226	0.0
Total loans[(1)]	438,600	100.0%	556,560	100.0%	638,147	100.0%
Non-performing loan ratio	18.53%		12.60%		2.91%	

(1) Calculated based on PRC GAAP.

In June 2004, we transferred to Cinda approximately RMB41.4 billion of loans that were classified as "doubtful" as well as wrote off and transferred to Cinda approximately RMB11.6 billion gross book value of loans that were classified as "loss". Largely as a result of these dispositions, our non-performing loan ratio decreased to 2.91% as of December 31, 2004.

These amounts of loans are calculated according to relevant PRC banking regulations, in particular the Loan Classification Principles. The loan classification practices in the PRC are different from those in some other countries. As a result, the five-category loan classification system in the PRC may not be comparable to the loan classification systems used by other banks in other countries. See the section headed "Risk Factors – Risks Relating to the PRC Banking Industry – Guidelines for loan classification and provisioning in the PRC may be perceived as less stringent than those in some other jurisdictions".

The PBOC guidelines provide that the principal determination in classifying a loan should be based on the assessment of the repayment ability of the borrower. In addition to the borrower's capacity to repay, we consider other factors, including, among others, the borrower's credit history, the borrower's intention to repay, the quality of the underlying collateral, the length of time the loan is overdue and the borrower's profitability, cash flow, liquidity and net worth position.

Furthermore, we consider certain quantitative criteria, including, among others, loss ratio in our loan classification practice. Any loan with a loss ratio below 25% is generally classified as substandard; any loan with a loss ratio between 25%-90% is generally classified as doubtful; and any loan with a loss ratio over 90% is generally classified as loss. See the section headed "Business – Risk Management and Internal Controls".

Pass. These are loans where the borrower has been performing its obligations and there are no signs that the borrower will default on principal or interest. As of December 31, 2004, we had an aggregate outstanding principal amount of pass loans of RMB521,203 million, representing approximately 81.7% of our total loans.

Special-mention. These are loans where the borrower is currently able to make principal and interest payments, but is experiencing factors that may be prejudicial to repayment. Ultimate loss is not expected at this stage, but we recognize that a loss could occur if adverse conditions persist. The aggregate outstanding principal amount of special-mention loans increased 96.5% from RMB50,083 million as of December 31, 2003 to RMB98,395 million as of December 31, 2004, representing approximately 15.4% of our total loans. This increase was principally a result of our more prudent loan classification measures including, among others, the implementation of the 10-class credit rating system throughout our organization in 2004, and the recent macroeconomic measures undertaken by the PRC government to manage the growth of the PRC economy in 2004.

Substandard. These are loans where the borrower is clearly experiencing factors jeopardizing its ability to meet payment obligations, and it is clear that the borrower's income from its ordinary course of business does not allow it to make principal and interest payments in full. These loans will recognize a loss even after the enforcement of collateral. As of December 31, 2004, we had an aggregate outstanding principal amount of substandard loans of RMB11,742 million, representing approximately 1.8% of our total loans.

Doubtful. These are loans where the borrower is unable to meet its payment obligations. These loans will recognize a material loss even after the enforcement of collateral. As of December 31, 2004, we had an aggregate outstanding principal amount of doubtful loans of RMB6,582 million, representing approximately 1.0% of our total loans.

Loss. These are loans where no, or only a minimal amount of, principal and interest are collectible after exhausting all collection efforts and all available legal proceedings. As of December 31, 2004, we had an aggregate outstanding principal amount of loss loans of RMB226 million, representing less than 0.04% of our total loans.

According to the Loan Classification Principles, the overdue status of a loan is an important factor for consideration under the five-category loan classification system. For example, loans overdue for over 90 days should usually be classified as "substandard" or below. However, there is no clear guidance contained in the Loan Classification Principles on how to classify overdue loans into each category of non-performing loans. When classifying the loans according to the PBOC five-category loan classification system, we use the following quantitative references:

- For corporate loans:

  If the loans are overdue for over one month, such loans will be classified as "special-mention" or below. If the loans are overdue for over three months, such loans will be classified as "substandard" or below, but if the loans are fully collateralized by deposits or government bonds, such loans can be classified as "special-mention".

- For retail loans:

  If the loans are overdue by three installments or for over 90 days, such loans will be classified as "substandard" or below. If the loans are overdue by six installments or for over 180 days, such loans should be reclassified as "doubtful" or below.

The PBOC issued the Provision Guidelines in 2002 that set forth the method for calculation of provisions for regulatory reporting purpose. See the section headed "Supervision and Regulation – Prudent Operating Requirements – Loan Classification – Provision requirements".

The following tables set forth our ten largest non-performing loans by customer as of the dates indicated:

	As of December 31, 2004		
	Industry	Principal outstanding	Category
		(in millions of RMB)	
Customer A	Trading	765	Doubtful
Customer B	Trading	297	Doubtful
Customer C	Scientific Research	250	Substandard
Customer D	Scientific Research	211	Substandard
Customer E	Real Estate	200	Substandard
Customer F	Trading	183	Substandard
Customer G	Manufacturing	151	Doubtful
Customer H	Real Estate	130	Substandard
Customer I	Manufacturing	126	Substandard
Customer J	Others	124	Doubtful
Total		2,438	

	As of December 31, 2003		
	Industry	Principal outstanding	Category
		(in millions of RMB)	
Customer A	Manufacturing	1,136	Doubtful
Customer B	Trading	915	Doubtful
Customer C	Trading	768	Substandard
Customer D	Manufacturing	643	Doubtful
Customer E	Real Estate	372	Doubtful
Customer F	Real Estate	336	Doubtful
Customer G	Education	327	Doubtful
Customer H	Manufacturing	61	Substandard
		264	Doubtful
Customer I	Services	318	Substandard
Customer J	Manufacturing	312	Doubtful
Total		5,452	

	As of December 31, 2002		
	Industry	Principal outstanding	Category
		(in millions of RMB)	
Customer A	Manufacturing	1,038	Doubtful
Customer B	Trading	929	Doubtful
Customer C	Trading	768	Substandard
Customer D	Real Estate	712	Substandard
		44	Doubtful
Customer E	Manufacturing	590	Substandard
Customer F	Manufacturing	411	Doubtful
Customer G	Services	136	Substandard
		200	Doubtful
Customer H	Trading	166	Substandard
		169	Doubtful
Customer I	Education	327	Substandard
Customer J	Trading	72	Substandard
		248	Doubtful
Total		5,810	

Non-performing Loan Management and Recovery

As part of our efforts to manage our non-performing loans and improve the level of recoveries from such loans and as part of our overall organizational restructuring, we have established an assets preservation department dedicated to managing and resolving our non-performing loans. Prior to the establishment of the assets preservation department, our non-performing loans were managed by the former risk assets management department. The assets preservation department provides centralized management of our non-performing loans and, with the guidance of the risk management committee, is responsible for the development and implementation of a uniform set of guidelines and procedures for resolving non-performing loans. At our branch level, some branches have an assets preservation department while others have dedicated personnel under the risk monitoring department in charge of non-performing loan management at the branch level. We have approximately 500 experienced professionals within our organization responsible for resolving non-performing loans. In addition, the assets preservation department also consults with the corporate banking department, the credit management department, the risk monitoring department, the legal and compliance department and, where appropriate, outside professionals to resolve non-performing loans. The assets preservation department reports to the executive vice president of our Company who oversees the management of non-performing loans.

The management of a particular loan will be transferred to the assets preservation department when such loan becomes non-performing. Our primary recovery methods for non-performing loans, through court and/or non-court procedures, include, among others, cash recovery, negotiated settlement, realization of collateral or other properties, and restructuring. To the extent that loans cannot be recovered after we have exhausted all court and non-court procedures, the unrecoverable amount will be written off.

Notification of payment. As an initial step in our collection efforts, a notification of payment will be sent to non-performing loan borrowers on a regular basis to (1) collect cash payment(s), (2) toll the statute of limitations, and (3) gather information about and understand the current status of the borrower's business operation and financial condition, which helps us form our recovery strategy in the event that we are not able to recover cash payment(s). Depending on the level of cooperation from the borrower and its guarantor, if any, we may either pursue legal proceedings or negotiate with the borrower and its guarantor, if any, to resolve the non-performing loan.

Legal proceedings. A lawsuit to recover a non-performing loan is generally initiated when the borrower and/or its guarantor, if any, do not cooperate with us on our collection efforts, or have no intention to repay the loan, or when the business operation of the borrower and/or its guarantor, if any, deteriorates to the extent that it may endanger our ability to collect if we do not act quickly. Upon obtaining a court judgment, we may accept installment payments from the borrower and/or guarantor, if any, as ordered by the court, or foreclose on the properties (including collateral, if any) of the borrower and/or guarantor, if any, with judicial enforcement, or work with the borrower and/or guarantor, if any, to restructure the non-performing loan under the court's supervision.

Negotiated settlement. We typically enter into a negotiated settlement with a borrower and/or its guarantor, if any, if they cooperate with us on our collection efforts, and there is no material deterioration of their business operations. A negotiated settlement generally takes the form of a restructuring, in connection with which we may require additional collateral or guarantee. When we have made a determination that a borrower's financial condition is unlikely to improve and that the chances of repayment are remote, a negotiated settlement generally includes partial payment plus realization of collateral or other properties.

Restructuring. Restructuring is a voluntary, or to a limited extent, court-supervised procedure, through which we and a borrower and/or its guarantor, if any, restructure such borrower's credit terms with a view to avoid litigation, prevent losses in the sale of collateral, and maximize recovery. Restructured loans are those loans for which modifications to the original clauses of the contracts have been made, generally as a result of the deterioration in the borrower's financial condition or of the borrower's inability to make repayments on schedule. All restructured loans are classified as "substandard" or below. If the restructured loans again fall overdue or the borrowers are still unable to demonstrate their repayment ability, such loans will be reclassified to "doubtful" or below. A non-performing loan will be restructured only if the business operations of the borrower and/or its guarantor, if any, is normal and has good prospects. As a pre-condition of restructuring, the borrower and/or its guarantor, if any, must repay all outstanding interest and make a payment in the amount of at least 10% of the loan principal. In addition, we require additional collateral if it is not enough to cover the non-performing loan to be restructured. We subject all restructured loans to a six-month surveillance period, during which such restructured loans remain as non-performing loans, and the borrower's business operations and repayment of loan principal and interest are monitored closely by our assets preservation department and risk monitoring department. After the six-month surveillance period, a restructured non-performing loan may be upgraded to "special-mention" or "pass" only if the borrower makes regular payments under the restructured terms, the borrower's business operations appear to be normal and the restructured loan otherwise meets the requirements of "special-mention" or "pass" under the Loan Classification Principles.

Our Company monitors the restructured loans in accordance with the CBRC/PBOC rules. While we are not required to make any regular or formal report to the CBRC or PBOC regarding the restructured loans, the regulators have the right to enquire and review the implementation of these rules during their examination of our Company.

We currently do not record the amount of restructured loans net of amounts included in overdue loans and advances. We are committed to capturing, and expect to be able to disclose, such information by the end of 2005.

Realization of collateral or other properties. Realization of collateral or other properties can be the result of either a legal proceeding with judicial enforcement or a negotiated settlement. Following the realization of collateral or other properties, we may attempt to maximize recovery through either public auctions or negotiated sales. We may face difficulties in enforcing our rights as a secured creditor. In particular, in certain areas in the PRC, deficiencies regarding the enforcement of legal proceedings and local protectionism may make it difficult for us to implement foreclosures and enforce favorable judgments, and hence may result in losses to our Company.

Write-off. Only after we have exhausted all collection efforts and all available legal proceedings can we start the process of writing off a non-performing loan. A loan write-off requires the approval of the risk management committees of our branches, the governors of the branches, the local bureaus of the state tax bureau, and at our head office level, the assets preservation department, the internal auditing department and the budget and finance department. To write off loans of RMB30 million or more, a special approval from the risk management committee of the head office is also required.

In addition to the above non-performing loan management policies and procedures, we have established a non-performing loan management emergency response system, which is led by a committee chaired by our president, with the heads of key business departments at the head office serving as committee members, to oversee and resolve, on an expedited basis, all material non-performing loans requiring immediate attention.

Impaired Amount of Due From Other Banks and Financial Institutions

The following table sets forth the impaired amount of due from other banks and financial institutions as of the dates indicated:

	As of December 31,		
	2002	2003	2004
	(in millions of RMB)		
Impaired amount of due from other banks and financial institutions	2,697	2,085	1,004

The following table sets forth the allowance for impairment losses on due from other banks and financial institutions as of the dates indicated:

	As of December 31,		
	2002	2003	2004
	(in millions of RMB)		
Allowance for individually identified impairment losses	701	968	1,004
Allowance for collectively assessed losses	—	—	—
Total allowance for impairment losses	701	968	1,004

CAO incident

On November 30, 2004, China Aviation Oil (Singapore) Corporation Ltd, or CAO, a public company listed on the Singapore Exchange Limited, announced that due to an estimated loss of approximately US$550 million suffered from speculative trading of crude oil commodity derivatives, it had suspended trading of its shares on the Singapore Exchange Limited and had applied for a debt restructuring with the High Court of Singapore. CAO, headquartered in Singapore, is the listed arm of China Aviation Oil Holding Company, a PRC state-owned enterprise. CAO is currently in the process of debt restructuring.

As of January 10, 2005, our total outstanding credits to CAO from our Singapore and Shanghai branches were approximately US$36 million, all of which were unsecured. In response to this incident, we have initiated a risk management emergency response system. We are in the process of investigating this incident and formulating an asset preservation plan. In addition, we have made a provision in the amount of approximately US$36 million. However, it is difficult to predict the exact amount of our losses due to uncertainties associated with CAO's debt restructuring plan.

We believe that this incident will not have a material adverse effect on our financial condition and results of operations.

D'Long incident

Since April 2004, due to the rapidly deteriorating financial condition of D'Long International Strategic Investment Company Limited and its affiliates, these companies experienced a liquidity crisis which resulted in their default of certain of their outstanding obligations.

As of December 31, 2004, our total loans outstanding to these companies were approximately RMB913 million. We have classified these loans into their respective classes in accordance with the Loan Classification Notice. Among them, approximately RMB344 million, or 35%, are categorized as impaired loans. We made a provision in the amount of approximately RMB217 million for these loans.

China Huarong Asset Management Co., Ltd. has assumed the management of these companies, and they are currently preparing a debt restructuring plan. It is difficult to predict the exact amount of our losses due to uncertainties associated with the debt restructuring plan.

Investment Securities

We invest in and trade Renminbi-denominated and, to a lesser extent, foreign currency-denominated securities for our own account to (1) maintain the stability and diversification of our assets, (2) maintain adequate sources of back-up liquidity to match our funding requirements, and (3) supplement income from our core lending activities.

Our Renminbi-denominated investment securities include primarily PRC government and PBOC bonds, finance bonds issued by PRC policy banks and subordinated term bonds issued by PRC commercial banks. As of December 31, 2004, our PRC government and PBOC bonds and finance bonds issued by PRC policy banks represented approximately 63.8% and 34.1%, respectively, of our Renminbi-denominated investment securities. The credit rating of the PRC policy banks is the same as that of the central bank in the PRC. As of December 31, 2004, our subordinated term bonds issued by PRC commercial banks represented approximately 2.8% of our Renminbi-denominated investment securities, within which approximately 90% were issued by BOC and CCB. Our single largest Renminbi-denominated investment in the year ended December 31, 2004 was RMB20,017 million in PBOC notes.

We adopted the Provisional Measures of the Foreign Currency Bonds Investment in September 2004. These Provisional Measures defined and specified the foreign currency bonds in which our Company is permitted to invest. Under these Provisional Measures, only the international business department of our head office and our overseas branches are authorized to engage in foreign currency bonds investment for both our own account and for our customers. In addition, only the international business department of our head office and our Hong Kong branch are authorized to engage in both foreign currency bonds investment and trading while our other overseas branches are only authorized to engage in foreign currency bonds investment. Moreover, under the Provisional Measures, our foreign currency-denominated investment securities include primarily foreign currency bonds issued by foreign governments, financial institutions and corporations. For foreign currency bonds issued by foreign governments and foreign financial institutions, we only make investments in entities that have a Standard & Poor's rating of BBB- or above or a Moody's rating of Baa3 or above. For foreign currency bonds issued by foreign corporations, we only make investments in entities that are either among the Fortune 500 or are listed on a stock exchange in Hong Kong, New York, Tokyo, Singapore, London or Frankfurt. Under our Provisional Measures, our total investment in a single foreign currency-denominated bond may not exceed 10% of the total offering size of such bond, except if the issuer has a Standard & Poor's rating of AA- or above or a Moody's rating of Aa3 or above. In addition, our total foreign currency-denominated investment securities may not exceed 30% of our total foreign currency assets.

We record these securities on our balance sheet as originated loans, held-to-maturity and available-for-sale securities. Debt securities that are purchased at original issuance without the intent to sell immediately or in the short term are classified as originated loans. Investment securities with fixed maturity where our management has the intent and the ability to hold to maturity are classified as held-to-maturity. Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available-for-sale. See the section headed "Financial Information – Critical Accounting Policies". As of December 31, 2004, our securities investment portfolio had a carrying value of RMB249,854 million, representing 21.8% of our total assets.

The following table sets forth the carrying value of our investment portfolio as of the dates indicated:

	As of December 31,					
	2002		2003		2004	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Originated loans						
Domestic fixed income instruments						
Financial institutions	41,603	35.7	47,313	32.0	66,582	26.6%
PBOC	0	0.0	0	0.0	21,560(1)	8.6
PRC government	45,303	38.8	49,952	33.7	59,073	23.6
Subtotal	86,906	74.5	97,265	65.7	147,215	58.9
Foreign fixed income instruments	7,151	6.1	7,405	5.0	12,611	5.1
Total originated loans	94,057	80.6	104,670	70.7	159,826	64.0
Available-for-sale						
Domestic fixed income instruments						
Financial institutions	0	0.0	6,601	4.5	7,698	3.1
PBOC	0	0.0	7,420	5.0	41,091	16.4
PRC government	0	0.0	5,475	3.7	10,669	4.3
Subtotal	0	0.0	19,496	13.2	59,458	23.8
Foreign fixed income instruments	13,890	11.9	16,576	11.2	30,072	12.0
Others	749	0.6	615	0.4	498	0.2
Total available-for-sale	14,639	12.6	36,687	24.8	90,028	36.0
Held-to-maturity						
Domestic fixed income instruments						
Financial institutions	521	0.4%	638	0.4%	0	0.0
PBOC	0	0.0	0	0.0	0	0.0
PRC government	994	0.9	878	0.6	0	0.0
Subtotal	1,515	1.3	1,516	1.0	0	0.0
Foreign fixed income instruments	6,427	5.5	5,205	3.5	0	0.0
Total held-to-maturity	7,942	6.8	6,721	4.5	0	0.0
Total	116,638	100.0%	148,078	100.0%	249,854	100.0%

(1) representing the bills and the interest accrued thereon we received in exchange for the transfer of impaired loans to Cinda in June 2004.

The following table sets forth the carrying value and fair value of our originated loans and held-to-maturity securities as of the dates indicated:

	As of December 31,					
	2002		2003		2004	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
	(in millions of RMB)					
Originated loans	94,057	96,171	104,670	105,017	159,826	157,588
Held-to-maturity	7,942	8,021	6,721	6,741	—	—

LIABILITIES AND SOURCES OF FUNDS

Our total liabilities as of December 31, 2004 were RMB1,091,902 million, representing an increase of 20.3% from RMB907,839 million as of December 31, 2003. Our December 31, 2003 total liabilities represented an increase of 25.6% from RMB722,569 million as of December 31, 2002. Our customer deposits represent a significant portion of our assets and accounted for 94.3% of our total liabilities as of December 31, 2004. We obtain funding for our lending and investment activities from a variety of sources, both domestic and international. Our principal sources of funding are corporate and individual deposits. Our funding operations are designed to ensure both a stable source of funds and effective liquidity management. We continuously adjust our funding operations to minimize funding costs and also endeavor to match currencies and maturities with those of our loan portfolio.

The following table sets forth information on the outstanding balances of our customer deposits as of the dates indicated:

	As of December 31,					
	2002		2003		2004	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Corporate deposits						
Corporate current deposits	264,936	38.4%	327,109	37.4%	385,556	37.4%
Corporate savings deposits[1]	2,517	0.4	16,909	2.0	5,011	0.5
Corporate time deposits	103,817	15.1	141,936	16.2	186,216	18.1
Sub-total	371,270	53.9	485,954	55.6	576,783	56.0
Individual deposits						
Individual current deposits	94,299	13.7	120,745	13.8	143,461	13.9
Individual savings deposits[1]	8,173	1.2	12,543	1.4	14,879	1.4
Individual time deposits	170,833	24.8	191,886	22.0	210,561	20.4
Sub-total	273,305	39.7	325,174	37.2	368,901	35.8
Others[2]	44,578	6.5	63,031	7.2	84,257	8.2
Total customer deposits	689,153	100%	874,159	100.0%	1,029,941	100.0%

(1) These deposits are exclusively from our Hong Kong branch.
(2) Includes, among others, pledged deposits, promissory notes, customer margin deposits and interest payable.

As of December 31, 2004, 94% of our customer deposits had current maturities of one year or less or were payable on demand. However, a substantial portion of such deposits has been rolled over upon maturity or has been maintained by our Company. Deposits have been, over time, a stable source of funding for us. There can be no assurance, however, that deposits will continue to be rolled over in the future, and, to the extent that such deposits are not rolled over, we will be required to obtain other sources of funding. See the section headed "Risk Factors – Risks Relating to Our Business – We are heavily dependent upon short-term funding, principally in the form of deposits, and our liquidity may be materially and adversely affected if a substantial portion of our short-term deposits fails to roll over upon maturity or if our banking business is not able to attract sufficient deposits to fund our loan activities". See note 3F to Appendix I – "Accountants' Report" for more information regarding the maturity of our deposits.

Distribution of Deposits by Geography

The following table sets forth the distribution of our deposits excluding interest payable through our branch network as of the dates indicated:

	As of December 31, 2004
	(in millions of RMB)
Northern China(1)	172,447
North-eastern China(2)	98,251
Eastern China(3)	375,619
Central & Southern China(4)	203,629
Western China(5)	100,341
Overseas(6)	73,047
Total	1,023,334

(1) Includes Beijing Municipality, Tianjin Municipality, Hebei Province, Shanxi Province, Inner Mongolia Autonomous Region.
(2) Includes Liaoning Province, Jilin Province and Heilongjiang Province.
(3) Includes Shanghai Municipality, Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province and Shandong Province.
(4) Includes Henan Province, Hunan Province, Hubei Province, Guangdong Province, Guangxi Autonomous Region and Hainan Province.
(5) Includes Chongqing Municipality, Sichuan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Gansu Province and Xinjiang Autonomous Region.
(6) Includes Hong Kong, New York, Singapore and Tokyo.

Our deposits from the Yangtze River Delta, the Bohai Rim Economic Zone and the Pearl River Delta accounted for 61.2%, 59.0% and 59.3% of our total deposits excluding interest payable as of December 31, 2004, 2003 and 2002, respectively. The increase of our relative deposit distributions to the Yangtze River Delta, the Bohai Rim Economic Zone and the Pearl River Delta was primarily due to our focus on the most economically developed areas of the PRC.

Distribution of Deposits by Currency

The following table sets forth the distribution of our deposits by Renminbi and foreign currencies as of the dates indicated:

	As of December 31,									
	2003					2004				
	RMB	US$	HK$	Others	Total	RMB	US$	HK$	Others	Total
	(in millions)									
Customer deposits	743,665	56,377	61,652	12,465	874,159	900,469	78,131	39,970	11,371	1,029,941
Due to other banks and financial institution	9,255	9,363	274	2,258	21,150	18,437	5,623	2,471	5,180	31,711
Total	752,920	65,740	61,926	14,723	895,309	918,906	83,754	42,441	16,551	1,061,652

Impact of Revaluation of Renminbi

In the event that the Renminbi is revalued, it may have a major impact on the PRC economy and in turn on many businesses in the PRC, and may therefore materially affect our financial condition and results of operations. Our credit risks may increase, especially in relation to borrowers that are adversely affected by a Renminbi revaluation. In addition, we are exposed to foreign currency risks as a result of our general banking activities, including foreign currency deposits and loans, as well as currency exchange transactions. In particular, after any Renminbi revaluation, the Renminbi-equivalent value of our foreign currency denominated assets and liabilities will both change. According to IFRS requirements, any such change affecting monetary items will be recognized in, and thus directly affect, our profit and loss account, and any such change affecting non-monetary items will be recognized in, and thus directly affect, our equity.