

ASSETS AND LIABILITIES

The following discussion and analysis should be read in conjunction with our consolidated financial statements included in the Accountants' Report in Appendix I, the unaudited supplementary financial information in Appendix II and the selected financial data, in each case together with the accompanying notes, included elsewhere in this prospectus. The consolidated financial statements have been prepared in accordance with IFRS. We publish our financial statements in the PRC in accordance with PRC GAAP. In 2003, our predecessor, China Construction Bank, began a financial restructuring which has had and is expected to have a significant impact on our results of operations and financial condition. See "Financial Information — Financial Impact of Our Restructuring" and "Our Restructuring and Operational Reform — Our Restructuring."

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As of June 30, 2005, our total assets amounted to RMB 4,224.1 billion, an increase of 8.0% from RMB 3,909.9 billion as of December 31, 2004. Our total assets increased by 9.9% to RMB 3,909.9 billion as of December 31, 2004 compared to RMB 3,557.1 billion as of December 31, 2003, which increased by 24.5% compared to RMB 2,857.9 billion as of December 31, 2002. The growth from December 31, 2002 to June 30, 2005 was primarily due to the growth in loans and advances to customers and investments, the two principal components of our assets. The following table sets forth, as of the dates indicated, the components of our total assets.

	As of December 31,						As of June 30,	
	2002		2003 ⁽¹⁾		2004		2005	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)								
Loans and advances to customers, total	1,783,482	—	1,997,754	—	2,227,426	—	2,374,442	—
Loan loss allowance	(207,289)	—	(54,395)	—	(53,864)	—	(58,954)	—
Loans and advances to customers, net	1,576,193	55.2%	1,943,359	54.6%	2,173,562	55.6%	2,315,488	54.8%
Investments	759,086	26.5	804,386	22.6	1,107,636	28.3	1,275,778	30.2
Cash and balances with central banks	285,584	10.0	330,748	9.3	399,366	10.2	419,024	9.9
Amounts due from banks and other financial institutions, net ⁽²⁾	114,018	4.0	237,548	6.7	112,531	2.9	112,126	2.7
Other assets ⁽³⁾	123,055	4.3	241,025	6.8	116,825	3.0	101,672	2.4
Total assets	2,857,936	100.0%	3,557,066	100.0%	3,909,920	100.0%	4,224,088	100.0%

- (1) The amounts as of December 31, 2003 exclude the RMB 128.9 billion in non-performing loans we disposed of and the RMB 56.9 billion in non-performing loans we wrote off as of December 31, 2003 in connection with our restructuring. In the following discussion in this section, we generally refer to the RMB 128.9 billion of non-performing loans disposed of and RMB 56.9 billion of non-performing loans written off as the "amounts for the restructuring-related disposal and write-off." For details on the financial impact of these transactions, see "Financial Information — Financial Impact of Our Restructuring."
- (2) Net of allowances for impairment losses in the amounts of RMB 6,499 million, RMB 3,847 million, RMB 2,650 million and RMB 2,577 million as of December 31, 2002, 2003 and 2004 and June 30, 2005, respectively.
- (3) Consists of property and equipment, deferred tax assets and other assets.

Loans and Advances to Customers

We provide a broad range of loan products to our customer base through our branch network, with the majority of our loans to customers denominated in Renminbi. Our loans to customers, net of the allowance for impairment losses, represented 54.8%, 55.6%, 54.6% and 55.2% of our total assets as of June 30, 2005, December 31, 2004, 2003 and 2002, respectively.

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As of June 30, 2005, our total loans to customers amounted to RMB 2,374.4 billion, an increase of 6.6% from RMB 2,227.4 billion as of December 31, 2004. Our total loans to customers increased by 11.5% to RMB 2,227.4 billion as of December 31, 2004 compared to RMB 1,997.8 billion as of December 31, 2003, which increased by 12.0% compared to RMB 1,783.5 billion as of December 31, 2002.

The following discussion is based on our total loans to customers, before taking into account the related allowance for impairment losses, rather than our net loans to customers. Our loans and advances are reported net of the allowance for impairment losses on our consolidated balance sheet.

Distribution of Loans by Product Type

For a description of the products we offer, see “Business — Our Principal Business Activities.” The following table sets forth, as of the dates indicated, our loans to customers by product type.

	As of December 31,						As of June 30,	
	2002		2003 ⁽¹⁾		2004		2005	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)								
Corporate loans	1,438,609	80.7%	1,508,478	75.5%	1,624,419	72.9%	1,743,379	73.4%
Discounted bills	48,875	2.7	103,421	5.2	157,275	7.1	168,028	7.1
Personal loans	271,068	15.2	354,727	17.8	412,275	18.5	429,159	18.1
Overseas operations	24,930	1.4	31,128	1.5	33,457	1.5	33,876	1.4
Total loans to customers	<u>1,783,482</u>	<u>100.0%</u>	<u>1,997,754</u>	<u>100.0%</u>	<u>2,227,426</u>	<u>100.0%</u>	<u>2,374,442</u>	<u>100.0%</u>

(1) The amounts as of December 31, 2003 exclude the amounts for the restructuring-related disposal and write-off.

Historically, corporate loans have been the largest component of our loan portfolio. In recent years, through December 31, 2004, we have experienced a higher growth rate in personal loans and discounted bills than in corporate loans. As a result, personal loans and discounted bills accounted for a larger aggregate percentage of our total loan portfolio as of June 30, 2005 than as of December 31, 2002.

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Corporate Loans

Corporate loans represented 73.4%, 72.9%, 75.5% and 80.7% of our total loans to customers as of June 30, 2005, December 31, 2004, 2003 and 2002, respectively. The following table sets forth, as of the dates indicated, our corporate loans by product type.

	As of December 31,						As of June 30,	
	2002		2003 ⁽¹⁾		2004		2005	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)								
Working capital loans	923,254	64.2%	920,747	61.0%	893,172	55.0%	935,264	53.6%
Fixed asset loans								
Infrastructure loans	322,697	22.4	362,079	24.0	451,558	27.8	504,394	28.9
Real estate development loans	20,263	1.4	92,523	6.1	147,240	9.1	171,546	9.9
Technological improvement loans	108,776	7.6	95,645	6.3	99,923	6.1	103,070	5.9
Corporate mortgage loans	766	0.1	703	0.1	1,746	0.1	1,913	0.1
Subtotal	452,502	31.5	550,950	36.5	700,467	43.1	780,923	44.8
Others⁽²⁾	62,853	4.3	36,781	2.5	30,780	1.9	27,192	1.6
Total corporate loans	<u>1,438,609</u>	<u>100.0%</u>	<u>1,508,478</u>	<u>100.0%</u>	<u>1,624,419</u>	<u>100.0%</u>	<u>1,743,379</u>	<u>100.0%</u>

(1) The amounts as of December 31, 2003 exclude RMB 119.7 billion in corporate loans within the amount for the restructuring-related disposal, as well as RMB 56.7 billion in corporate loans within the amount for the restructuring-related write-off.

(2) Primarily consists of factoring, overdrafts, trade finance facilities and on-lending loans.

As of June 30, 2005, our corporate loans amounted to RMB 1,743.4 billion, an increase of 7.3% from RMB 1,624.4 billion as of December 31, 2004, primarily due to an increase in fixed asset loans, particularly infrastructure loans and real estate development loans. We are a market leader in infrastructure lending in China and have continued to focus our marketing efforts on this product. Although there was an increase in the absolute balance of working capital loans as of June 30, 2005, working capital loans as a percentage of our corporate loans decreased to 53.6% as of June 30, 2005 from 55.0% as of December 31, 2004.

Our corporate loans increased by 7.7% to RMB 1,624.4 billion as of December 31, 2004 compared to RMB 1,508.5 billion as of December 31, 2003, primarily due to an increase in fixed asset loans, particularly infrastructure loans and real estate development loans. The amount of working capital loans as of December 31, 2004 decreased due in part to the tightening of our lending practices on working capital loans in 2004 in response to the relatively high non-performing loan ratio that we experienced on these loans in the past. As a result, fixed asset loans, as a percentage of our corporate loans, increased to 43.1% as of December 31, 2004 compared to 36.5% as of December 31, 2003; while working capital loans, as a percentage of corporate loans, decreased to 55.0% as of December 31, 2004 compared to 61.0% as of December 31, 2003.

Corporate loans increased by 4.9% to RMB 1,508.5 billion as of December 31, 2003 compared to RMB 1,438.6 billion as of December 31, 2002. The balance as of December 31, 2003 was affected by the restructuring-related disposal and write-off. Assuming that both the restructuring-related disposal, which included RMB 119.7 billion in corporate loans, and the restructuring-related write-off, which included RMB 56.7 billion in corporate loans, did not occur, and that the corporate loans disposed of and written off were added back to the balance as of December 31, 2003, total corporate loans would have increased by 17.1% from December 31, 2002 to December 31, 2003. This increase in corporate loans was primarily due to the continued growth in the overall economy, which in turn positively affected corporate activities.

The amounts of working capital loans and real estate development loans in the fixed asset loan category as of June 30, 2005, December 31, 2004 and December 31, 2003 were also affected by a new PBOC guideline

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in 2003, pursuant to which certain newly-extended working capital loans, including rolled-over loans, to real estate developers ceased to be extended as working capital loans, but were extended as fixed asset loans in the real estate development loan category.

Discounted Bills

As of June 30, 2005, our total discounted bills amounted to RMB 168.0 billion, an increase of 6.8% from RMB 157.3 billion as of December 31, 2004. Discounted bills increased by 52.1% to RMB 157.3 billion as of December 31, 2004 from RMB 103.4 billion as of December 31, 2003, which increased by 111.5% from RMB 48.9 billion as of December 31, 2002. As a result of our continued focus on expanding this product, particularly discounted bank acceptance bills, discounted bills, as a percentage of our total loans to customers, represented 7.1% as of June 30, 2005 and December 31, 2004, an increase from 5.2% as of December 31, 2003 and 2.7% as of December 31, 2002.

Personal Loans

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

	As of December 31,						As of June 30,	
	2002		2003 ⁽¹⁾		2004		2005	
	<u>Amount</u>	<u>% of total</u>	<u>Amount</u>	<u>% of total</u>	<u>Amount</u>	<u>% of total</u>	<u>Amount</u>	<u>% of total</u>
(in millions of RMB, except percentages)								
Residential mortgage loans	212,588	78.4%	258,918	73.0%	309,401	75.0%	328,650	76.6%
Personal consumption loans ⁽²⁾	31,011	11.4	59,895	16.9	63,509	15.4	60,136	14.0
Others ⁽³⁾	27,469	10.2	35,914	10.1	39,365	9.6	40,373	9.4
Total personal loans	<u>271,068</u>	<u>100.0%</u>	<u>354,727</u>	<u>100.0%</u>	<u>412,275</u>	<u>100.0%</u>	<u>429,159</u>	<u>100.0%</u>

(1) The amounts as of December 31, 2003 exclude RMB 9.2 billion in personal loans within the amount for the restructuring-related disposal and RMB 0.2 billion in personal loans within the amount for the restructuring-related write-off.

(2) Primarily consists of automobile loans and personal credit lines.

(3) Primarily consists of individual commercial property mortgage loans, education loans and credit card overdrafts.

As of June 30, 2005, our total personal loans amounted to RMB 429.2 billion, an increase of 4.1% from RMB 412.3 billion as of December 31, 2004. However, personal loans, as a percentage of our total loan portfolio, decreased slightly to 18.1% as of June 30, 2005 from 18.5% as of December 31, 2004, primarily due to a lower rate of increase in the balance of personal loans compared to corporate loans and discounted bills as of the same dates. Residential mortgage loans increased by 6.2% to RMB 328.7 billion as of June 30, 2005 from RMB 309.4 billion as of December 31, 2004. This represented a slowdown in the growth rate of residential mortgage loans, primarily due to the effect of interest rate increases in October 2004 and March 2005 and the continued effect of the PRC government's macroeconomic measures, both of which adversely affected residential real estate purchases and also led to an increase in pre-payments on mortgage loans. Personal consumption loans decreased by 5.4% to RMB 60.1 billion as of June 30, 2005 from RMB 63.5 billion as of December 31, 2004, primarily due to a decrease in automobile loans resulting from a tightening of our credit policies and adverse conditions in the automobile market.

Personal loans increased by 16.2% to RMB 412.3 billion as of December 31, 2004 from RMB 354.7 billion as of December 31, 2003, which increased by 30.8% compared to RMB 271.1 billion as of December 31, 2002. The balance as of December 31, 2003 was slightly affected by the restructuring-related disposal and write-off. Assuming that both the restructuring-related disposal, which included RMB 9.2 billion

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in personal loans, and the restructuring-related write-off, which included RMB 0.2 billion in personal loans, did not occur, and that the personal loans disposed of and written off were added back to the balance as of December 31, 2003, total personal loans would have increased by 34.3% from December 31, 2002 to December 31, 2003.

The increase in personal loans from December 31, 2002 to December 31, 2004 was primarily due to increases in residential mortgage loans and personal consumption loans. Residential mortgage loans and personal consumption loans increased at a compound annual growth rate of 20.6% and 43.1%, respectively, between December 31, 2002 and December 31, 2004. Residential mortgage loans, which historically have been the largest component of our personal loans, increased primarily due to increased demand for this product, coupled with our continued marketing efforts.

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Distribution of Corporate Loans by Industry

We classify our corporate loan portfolio based on the industry classifications of the National Bureau of Statistics of China. The following table sets forth, as of the dates indicated, the distribution of our corporate loans by industry classification.

	As of December 31,						As of June 30,	
	2002		2003 ⁽¹⁾		2004		2005	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)								
Manufacturing								
Petrochemical, coal and nuclear products	42,487	3.0%	34,152	2.3%	30,982	1.9%	25,343	1.5%
Iron and steel	40,042	2.8	40,154	2.7	47,115	2.9	53,840	3.1
Chemical products	38,913	2.7	32,470	2.2	39,194	2.4	41,359	2.4
Electronic products	25,988	1.8	27,055	1.8	33,133	2.1	36,893	2.1
Textile and garment	18,848	1.3	21,530	1.4	21,294	1.3	19,825	1.1
Metal processing	17,259	1.2	18,709	1.2	23,077	1.4	23,580	1.4
Cement processing	15,026	1.0	14,425	1.0	20,056	1.2	24,561	1.4
Others	<u>161,628</u>	<u>11.2</u>	<u>158,556</u>	<u>10.4</u>	<u>181,780</u>	<u>11.2</u>	<u>196,050</u>	<u>11.2</u>
Subtotal	<u>360,191</u>	<u>25.0</u>	<u>347,051</u>	<u>23.0</u>	<u>396,631</u>	<u>24.4</u>	<u>421,451</u>	<u>24.2</u>
Transportation, storage and postal services	192,268	13.4	207,821	13.8	236,033	14.5	271,633	15.6
Production and supply of electric power, gas and water	191,411	13.3	206,434	13.7	231,590	14.3	260,043	14.9
Property development	211,986	14.7	248,520	16.4	244,036	15.0	258,683	14.8
Construction	79,151	5.5	77,841	5.2	82,139	5.1	87,473	5.0
Telecommunications, computer services and software	86,895	6.0	86,765	5.8	72,163	4.4	75,068	4.3
Water, environment and public utility management	41,669	2.9	50,981	3.4	54,814	3.4	67,822	3.9
Wholesale and retail	82,030	5.7	62,664	4.2	56,863	3.5	60,768	3.5
Education	20,968	1.5	36,794	2.4	51,309	3.2	59,639	3.4
Mining	35,819	2.5	41,278	2.7	52,637	3.2	51,135	2.9
Others ⁽²⁾	<u>136,221</u>	<u>9.5</u>	<u>142,329</u>	<u>9.4</u>	<u>146,204</u>	<u>9.0</u>	<u>129,664</u>	<u>7.5</u>
Total corporate loans	<u>1,438,609</u>	<u>100.0%</u>	<u>1,508,478</u>	<u>100.0%</u>	<u>1,624,419</u>	<u>100.0%</u>	<u>1,743,379</u>	<u>100.0%</u>

(1) The amounts as of December 31, 2003 exclude RMB 119.7 billion in corporate loans within the amount for the restructuring-related disposal, as well as RMB 56.7 billion in corporate loans within the amount for the restructuring-related write-off.

(2) Primarily consists of leasing and commercial services; residential services; health care, social security and social welfare; culture, sports and entertainment; government agencies and non-government organizations.

The aggregate amount of loans to borrowers in (i) manufacturing, (ii) transportation, storage and postal services, (iii) production and supply of electrical power, gas and water, and (iv) property development, our four largest industries in terms of aggregate loan exposure, represented 69.5%, 68.2%, 66.9% and 66.4% of our total corporate loans, as of June 30, 2005, December 31, 2004, 2003 and 2002, respectively.

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Distribution of Loans by Geographical Region

We classify loans geographically based on the location of the branch that originated the loan. There is generally a high correlation between the location of the borrower and the location of the branch that originated the loan, except in the case of our head office, which originates or manages loans to certain key borrowers in all geographical regions of China. 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,	
	2002		2003 ⁽¹⁾		2004		2005	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Yangtze River Delta	374,167	21.0%	465,270	23.3%	547,351	24.6%	589,503	24.8%
Pearl River Delta	257,208	14.4	276,470	13.8	288,515	12.9	310,417	13.1
Bohai Rim	359,534	20.2	407,694	20.4	457,796	20.6	475,059	20.0
Central	275,230	15.4	304,833	15.3	362,218	16.3	394,482	16.6
Western	300,099	16.8	330,957	16.6	357,460	16.0	385,830	16.3
Northeastern	124,439	7.0	120,941	6.1	136,689	6.1	145,007	6.1
Head office	67,875	3.8	60,461	3.0	43,940	2.0	40,268	1.7
Overseas operations	24,930	1.4	31,128	1.5	33,457	1.5	33,876	1.4
Total loans to customers	<u>1,783,482</u>	<u>100.0%</u>	<u>1,997,754</u>	<u>100.0%</u>	<u>2,227,426</u>	<u>100.0%</u>	<u>2,374,442</u>	<u>100.0%</u>

(1) The amounts as of December 31, 2003 exclude the amounts for the restructuring-related disposal and write-off.

Distribution of Corporate Loans by Size

The following table sets forth, as of June 30, 2005, the distribution of the outstanding amounts of our corporate loans by size.

	As of June 30, 2005	
	Amount	% of total
	(in millions of RMB, except percentages)	
Up to RMB 10 million	148,552	8.5%
Over RMB 10 million to RMB 50 million	492,381	28.2
Over RMB 50 million to RMB 100 million	287,109	16.5
Over RMB 100 million	<u>815,337</u>	<u>46.8</u>
Total corporate loans	<u>1,743,379</u>	<u>100.0%</u>

The table above shows only the distribution by size of individual loans. Since borrowers may have multiple loans of different sizes, there may be no correlation between the distribution of loans by size and the distribution of total credit exposure by borrower.

Distribution of Loans by Collateral

Loans secured by tangible assets or guarantees represented, in the aggregate, 72.3%, 72.6%, 74.1% and 77.9% of our total loan portfolio as of June 30, 2005, December 31, 2004, 2003 and 2002, respectively. If a loan is secured by more than one form of security interest, the allocation is based on the terms of the underlying

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loan agreement. The following table sets forth, as of the dates indicated, the distribution of our loan portfolio by the type of collateral.

	As of December 31,						As of June 30,	
	2002		2003 ⁽¹⁾		2004		2005	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)								
Loans secured by monetary assets	112,356	6.3%	140,610	7.1%	163,452	7.4%	181,535	7.6%
Loans secured by tangible assets, other than monetary assets ⁽²⁾	585,173	32.8	695,790	34.8	790,675	35.5	860,241	36.2
Guaranteed loans	692,527	38.8	643,929	32.2	662,237	29.7	674,948	28.5
Unsecured loans	393,426	22.1	517,425	25.9	611,062	27.4	657,718	27.7
Total loans to customers	<u>1,783,482</u>	<u>100.0%</u>	<u>1,997,754</u>	<u>100.0%</u>	<u>2,227,426</u>	<u>100.0%</u>	<u>2,374,442</u>	<u>100.0%</u>

(1) The amounts as of December 31, 2003 exclude the amounts for the restructuring-related disposal and write-off.

(2) For a discussion of the enforceability of collateral in the form of residential properties, see “Risk Factors — Risks Related to Our Loan Portfolio — We may be unable to realize the full value of the collateral or guarantees securing our loan portfolio.”

Loans secured by tangible assets are subject to loan-to-value ratio limits based on the type of collateral. See “Risk Management — Credit Risk Management — Credit Risk Management for Corporate Loans — Credit Origination and Analysis — Collateral Appraisal.” Guarantors are subject to the same credit approval process as borrowers. Since guaranteed loans are generally not secured by any assets of the guarantors, we have increasingly required our borrowers to secure loans with tangible assets. As a result, guaranteed loans as a percentage of our loan portfolio decreased to 28.5% as of June 30, 2005, compared to 29.7% as of December 31, 2004, 32.2% as of December 31, 2003, and 38.8% as of December 31, 2002.

Unsecured loans as a percentage of our total loans to customers increased to 27.7% as of June 30, 2005, compared to 27.4% as of December 31, 2004, 25.9% as of December 31, 2003, and 22.1% as of December 31, 2002. The growth in unsecured loans was primarily due to the growth of our discounted bills. The growth in unsecured loans was also attributable to significantly increased lending to customers which we have rated as AAA and selected customers with an AA rating. For a discussion of our internal credit risk ratings, see “Risk Management — Credit Risk Management — Credit Risk Management for Corporate Loans — Credit Origination and Analysis — Credit Risk Rating.”

Borrower Concentration

In accordance with applicable PRC banking laws and regulations, we are subject to a lending limit of 10% of our regulatory capital to any single borrower. Our largest aggregate loan exposure to a single borrower was 28.1% and 30.1% of our regulatory capital as of December 31, 2003 and 2002, respectively, and thus we were not in compliance with this lending limit. We subsequently took measures, including by electing not to roll over certain loans, to comply with this lending limit. In addition, our regulatory capital increased substantially as a result of the equity contribution by Huijin. As of June 30, 2005 and December 31, 2004, our largest aggregate loan exposure to a single borrower was 9.4% and 9.5%, respectively, of our regulatory capital, thus complying with the requirement. However, the methodology for calculating our regulatory capital changed in March 2004 pursuant to a new CBRC regulation, and, as a result, our regulatory capital as of December 31, 2003 and 2002 was not calculated on a comparable basis with our regulatory capital as of subsequent balance sheet dates. See “Regulation and Supervision — PRC Regulation and Supervision — Operating Requirements — Liquidity and Other Operational Ratios.”

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The following table sets forth, as of June 30, 2005, the loans to our ten largest single borrowers, all of which were performing as of that date.

As of June 30, 2005				
	Industry	Amount	% of total loans	% of regulatory capital ⁽¹⁾
(in millions of RMB, except percentages)				
Borrower A	Transportation, storage and postal services	24,498	1.0%	9.4%
Borrower B ⁽²⁾	Telecommunication, computer services and software	13,600	0.6	5.2
Borrower C ⁽²⁾	Telecommunication, computer services and software	10,636	0.4	4.1
Borrower D ⁽³⁾	Mining	9,648	0.4	3.7
Borrower E	Telecommunication, computer services and software	9,063	0.4	3.5
Borrower F	Property development	8,500	0.4	3.3
Borrower G ⁽³⁾	Mining	6,500	0.3	2.5
Borrower H	Transportation, storage and postal services	5,564	0.2	2.1
Borrower I	Transportation, storage and postal services	5,381	0.2	2.1
Borrower J	Production and supply of electric power, gas and water	<u>5,074</u>	<u>0.2</u>	<u>1.9</u>
Total		<u>98,464</u>	<u>4.1%</u>	<u>37.8%</u>

(1) Represents loan amounts as a percentage of our regulatory capital, calculated in accordance with to statutory requirements under PRC GAAP. For a calculation of our regulatory capital as of December 31, 2004, see “Financial Information — Capital Resources — Capital Adequacy.”

(2) Borrowers B and C are members of the same group.

(3) Borrowers D and G are members of the same group.

As of June 30, 2005 and December 31, 2004, the aggregate amount of loans to our ten largest group borrowers totaled RMB 241.0 billion and RMB 251.5 billion, representing 10.2% and 11.3%, respectively, of our total loans to customers. The CBRC has advised us to limit our exposure to any one group borrower to 15% of our regulatory capital. As of December 31, 2004, we had loans to three group borrowers that amounted to 16.2%, 16.1% and 15.7% respectively, of our regulatory capital, thus exceeding the CBRC guidelines. We subsequently took measures, including by electing not to roll over certain loans, to become compliant with those guidelines, and, as of June 30, 2005, none of our loans to any one group borrower exceeded 15% of our regulatory capital.

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Maturity Profile of Loan Portfolio

The following table sets forth, as of June 30, 2005, our loan products by remaining maturity.

	As of June 30, 2005				Total
	Due less than one year	Due between 1 to 5 years	Due more than 5 years	Overdue ⁽¹⁾	
(in millions of RMB)					
Corporate loans					
Working capital loans	728,351	134,857	14,303	57,753	935,264
Fixed asset loans	154,964	328,358	276,593	21,008	780,923
Others	6,965	5,000	12,683	2,544	27,192
Subtotal	890,280	468,215	303,579	81,305	1,743,379
Discounted bills	168,028	—	—	—	168,028
Personal loans	66,931	127,293	199,663	35,272	429,159
Overseas operations	15,576	14,341	3,865	94	33,876
Total loans to customers	1,140,815	609,849	507,107	116,671	2,374,442

(1) Includes loans on which principal is overdue. Loans on which interest but not principal is overdue are not included.

As of June 30, 2005, 48.0% of our total loans to customers were due in less than one year. Our short-term loans primarily consist of discounted bills and working capital loans for corporate customers. A majority of our personal loans had a term of one year or more, primarily because the largest component of our personal loans consisted of residential mortgage loans, which are generally long-term loans. We roll over a portion of our corporate loans and, when we do so, these loans are treated, and are subject to the same credit approval policies and procedures, as newly-extended loans. See “Risk Management — Credit Risk Management — Credit Risk Management for Corporate Loans — Credit Origination and Analysis.”

Loan Interest Rate Profile

Interest rates have historically been highly regulated in China and are gradually being liberalized. Interest rates on RMB-denominated loans are subject to resetting after a change in the relevant PBOC benchmark rate. In general, following a change by the PBOC in benchmark rates, the interest rates on corporate loans are reset on the first anniversary of the loan origination date following the rate change, and the interest rates on residential mortgage loans are reset on January 1 of the year following the rate change. See “Regulation and Supervision — PRC Regulation and Supervision — Pricing of Products and Services.” Interest rates on loans with maturities of one year or less generally do not reset and hence are effectively fixed-rate loans.

From January 1, 2004, we have been permitted under new PRC government regulations to extend loans with maturities longer than one year with fixed interest rates. As of June 30, 2005, 1.4% of our total loans to customers were fixed-rate loans with maturities of one year or more.

Asset Quality of Our Loan Portfolio

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 “Regulation and Supervision — PRC Regulation and Supervision — Loan Classification, Allowances and Write-offs — Loan Classification and Allowances.” In 2003, we strengthened the application of our five-category loan classification system by providing more detailed and specific guidance for loan

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grading and enhanced criteria for loan restructuring. In connection with designing and implementing these improvements, we engaged in a bank-wide training effort for our credit officers and conducted a review of our historical loan classifications. The review showed that, although our loan classifications were substantially in compliance with the CRBC guidelines in effect prior to our restructuring, there were inconsistencies in classification among our branches. As a result of the review, we identified and corrected those inconsistencies by reclassifying certain loans based on their status at the relevant year-end dates. The loan classification information presented in this section is presented as if we had classified our loans on a consistent basis as of June 30, 2005, December 31, 2004, 2003 and 2002.

Loan Classification Criteria

In determining the classification of our loan portfolio, we apply a series of criteria that are derived from the CBRC guidelines. These criteria are designed to assess the likelihood of repayment by the borrower and the collectibility of principal and interest on the loan. Our loan classification criteria focus on a number of factors, to the extent applicable, including (i) the borrower's ability to repay the loan, based on such factors as the borrower's financial condition, its profitability and cash flow; (ii) the borrower's repayment history; (iii) the borrower's willingness to repay; (iv) the net realizable value of any collateral; and (v) the prospect for support from any financially responsible guarantor.

In applying these criteria, we also take into account the length of time by which payments of principal or interest on a loan are overdue and other factors in classifying our loans, as follows:

Normal. Overdue loans may be classified as normal only if they are overdue for three months or less and are fully secured by pledges, i.e. monetary assets, of government bonds, bonds issued by financial institutions, deposits with our bank, or other deposits.

Special mention. Loans should be classified as special mention or lower if:

- they are overdue for three months or less and are unsecured, partially secured, or guaranteed by third parties; or
- they are overdue for six months or less and are fully secured by collateral, i.e. tangible assets other than monetary assets; or
- they are overdue for twelve months or less and are fully secured by pledges.

Substandard. Loans should be classified as substandard if:

- they are overdue for three to six months and are unsecured, partially secured, or guaranteed by third parties; or
- they are overdue for more than six months and are fully secured by collateral; or
- they are overdue for more than twelve months and are fully secured by pledges.

Doubtful. Loans should be classified as doubtful if they are overdue for more than six months and are unsecured, partially secured, or guaranteed by third parties, unless they meet the following three conditions, in which case they may be classified in a higher category:

- the borrower is operating normally; and
- the borrower is negotiating with our bank to restructure the relevant loans, provided that the negotiations have not lasted for more than twelve months (including six months from the date on which the loans became overdue); and

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- either (i) no or minimal amounts of interest on the loan are overdue, or (ii) we and the guarantor of the loan have either entered into a repayment agreement or are in the process of negotiating specific provisions of such an agreement, and the repayment ability of the guarantor is not in doubt.

Loss. In general, we classify loans as loss based on one or more of the following criteria, among others:

- the borrower's business operations are suspended, and this results in the loss of the full amount or a substantial portion of the loan;
- the borrower is unable to repay the loan;
- the borrower has terminated all of its operations;
- the value of any collateral securing the loan is difficult to determine or realize;
- for fixed asset loans, the construction of the fixed asset project has been suspended for a long time and is highly unlikely to resume;
- the borrower has become the subject of bankruptcy proceedings; or
- as a result of a final resolution of a judicial or arbitral proceeding, only a small portion of the loan can be recovered, even after enforcing any guarantee or security interest.

Distribution of Loans by Loan Classification

The following tables set forth, as of the dates indicated, the distribution of our loan portfolio by loan classification category. We use the term "non-performing loans" and "impaired loans" synonymously to refer to the loans identified as "impaired loans and advances" in Note 17(c) to the consolidated financial statements included in the Accountants' Report in Appendix I to this prospectus. 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 June 30,	
	2002		2003 ⁽¹⁾		2004		2005	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Normal	1,138,298	63.8%	1,546,824	77.4%	1,768,578	79.4%	1,946,913	82.0%
Special mention	342,536	19.2	365,612	18.3	371,468	16.7	334,718	14.1
Substandard	77,133	4.3	51,232	2.6	51,430	2.3	49,496	2.1
Doubtful	158,102	8.9	27,729	1.4	31,058	1.4	37,329	1.6
Loss	67,413	3.8	6,357	0.3	4,892	0.2	5,986	0.2
Total loans to customers	<u>1,783,482</u>	<u>100.0%</u>	<u>1,997,754</u>	<u>100.0%</u>	<u>2,227,426</u>	<u>100.0%</u>	<u>2,374,442</u>	<u>100.0%</u>
Non-performing loan ratio ⁽²⁾	16.97%		4.27%		3.92%		3.91%	

(1) The amounts as of December 31, 2003 exclude the amounts for the restructuring-related disposal and write-off.

(2) Calculated by dividing total non-performing loans by total loans.

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	As of December 31,						As of June 30,	
	2002		2003 ⁽¹⁾		2004		2005	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Corporate loans								
Normal	818,692	45.9%	1,078,981	54.0%	1,188,431	53.4%	1,335,660	56.3%
Special mention	329,755	18.5	348,726	17.5	354,699	15.9	323,196	13.6
Substandard	72,535	4.1	48,388	2.4	47,865	2.1	45,056	1.9
Doubtful	150,766	8.5	26,060	1.3	28,874	1.3	33,825	1.4
Loss	66,861	3.7	6,323	0.3	4,550	0.2	5,642	0.2
Subtotal	<u>1,438,609</u>	<u>80.7%</u>	<u>1,508,478</u>	<u>75.5%</u>	<u>1,624,419</u>	<u>72.9%</u>	<u>1,743,379</u>	<u>73.4%</u>
Non-performing loan ratio⁽²⁾	20.17%		5.35%		5.00%		4.85%	
Discounted bills								
Normal	47,810	2.7%	102,044	5.1%	156,704	7.1%	167,516	7.1%
Special mention	700	0.0	1,168	0.1	569	0.0	504	0.0
Substandard	124	0.0	10	0.0	2	0.0	8	0.0
Doubtful	191	0.0	196	0.0	—	—	—	—
Loss	50	0.0	3	0.0	—	—	—	—
Subtotal	<u>48,875</u>	<u>2.7%</u>	<u>103,421</u>	<u>5.2%</u>	<u>157,275</u>	<u>7.1%</u>	<u>168,028</u>	<u>7.1%</u>
Non-performing loan ratio⁽²⁾	0.75%		0.20%		0.00%		0.00%	
Personal loans								
Normal	247,369	13.9%	335,187	16.8%	390,140	17.5%	410,015	17.3%
Special mention	11,813	0.7	15,461	0.8	16,166	0.7	10,959	0.5
Substandard	4,435	0.2	2,813	0.1	3,552	0.2	4,423	0.2
Doubtful	6,967	0.4	1,244	0.1	2,098	0.1	3,430	0.1
Loss	484	0.0	22	0.0	319	0.0	332	0.0
Subtotal	<u>271,068</u>	<u>15.2%</u>	<u>354,727</u>	<u>17.8%</u>	<u>412,275</u>	<u>18.5%</u>	<u>429,159</u>	<u>18.1%</u>
Non-performing loan ratio⁽²⁾	4.38%		1.15%		1.45%		1.91%	
Overseas operations	<u>24,930</u>	<u>1.4%</u>	<u>31,128</u>	<u>1.5%</u>	<u>33,457</u>	<u>1.5%</u>	<u>33,876</u>	<u>1.4%</u>
Non-performing loan ratio⁽²⁾	0.94%		0.83%		0.36%		0.28%	
Total loans to customers	<u>1,783,482</u>	<u>100.0%</u>	<u>1,997,754</u>	<u>100.0%</u>	<u>2,227,426</u>	<u>100.0%</u>	<u>2,374,442</u>	<u>100.0%</u>
Non-performing loan ratio⁽²⁾	16.97%		4.27%		3.92%		3.91%	

(1) The amounts as of December 31, 2003 exclude the amounts for the restructuring-related disposal and write-off.

(2) Calculated by dividing non-performing loans in each category by total loans in that category.

The non-performing loan ratio for our total loan portfolio was 3.91%, 3.92%, 4.27% and 16.97% as of June 30, 2005, December 31, 2004, 2003 and 2002, respectively. As of December 31, 2003, we disposed of non-performing loans with an aggregate principal amount of RMB 128.9 billion and wrote off non-performing loans with a principal amount of RMB 56.9 billion as part of our restructuring. See “— Distribution of the Restructuring-related Disposal and Write-off.” Assuming that the restructuring-related disposal and write-off did not occur, and that the loans disposed of and written off were added back to the balance as of December 31, 2003, our non-performing loan ratio as of that date would have been 12.42%. Apart from the effect of our restructuring-related disposal and write-off, the decrease in our non-performing loan ratio from December 31, 2002 to December 31, 2003, reflected an overall improvement in the asset quality of our loan portfolio.

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Changes in the Asset Quality of Our Loan Portfolio

The following discussion analyzes the changes in the asset quality of our corporate loans and discounted bills as of the dates presented. As of June 30, 2005, December 31, 2004, 2003 and 2002, the aggregate amounts of corporate loans and discounted bills represented 80.5%, 80.0%, 80.7% and 83.4% of our total loan portfolio, respectively. Accordingly, we believe that the changes in the asset quality of our overall loan portfolio may be fairly reflected by the changes in the asset quality of our corporate loans and discounted bills. For purposes of this subsection only, references to “loans” mean corporate loans and discounted bills.

Since 1998, we have made significant progress in overhauling and enhancing our risk assessment and management policies and procedures, including the full implementation of the five-category loan classification system and the adoption of new credit approval procedures and a standardized credit manual by the end of 2000. Accordingly, we believe that January 1, 2001 is an appropriate starting date for purposes of assessing the effectiveness of those enhanced policies, as measured by our asset quality. In addition, we believe that separating our corporate loans and discounted bills into those extended to our existing customers through December 31, 2000 and our new customers since January 1, 2001, is appropriate in evaluating the effectiveness of our enhanced policies and procedures in terms of assessing counterparty risk and creditworthiness.

For purposes of this discussion, we categorize our loans into loans to “Pre-existing Customers” and loans to “New Customers.” Pre-existing Customers are corporate customers which had loan balances outstanding as of December 31, 2000. New Customers are corporate customers which had no loan balances outstanding on December 31, 2000 and to which we extended loans on or after January 1, 2001 (including corporate customers which first became our customers on or after this date). Accordingly, newly-extended loans to customers which had loan balances outstanding as of December 31, 2000, have been categorized, for purposes of this discussion, as loans to Pre-existing Customers.

At and since December 31, 2002, approximately half of our corporate loan balances have had remaining maturities of less than one year and approximately three quarters of our corporate loan balances have had remaining maturities of less than five years. Consequently, although it generally takes some time before a new loan might become non-performing, we believe a January 1, 2001 starting date also allows us to assess our asset quality over a sufficiently long period to reflect the loan aging effect of corporate loans made to our New Customers.

The following table sets forth, as of the dates indicated, our loans to our Pre-existing Customers and New Customers.

	2002		As of December 31,				As of June 30,	
	Amount	% of total	2003 ⁽¹⁾	% of total	2004	% of total	2005	% of total
	(in millions of RMB, except percentages)							
Pre-existing Customers	1,138,191	76.5%	925,440	57.4%	865,026	48.6%	831,276	43.5%
New Customers	349,293	23.5	686,459	42.6	916,668	51.4	1,080,131	56.5
Total	<u>1,487,484</u>	<u>100.0%</u>	<u>1,611,899</u>	<u>100.0%</u>	<u>1,781,694</u>	<u>100.0%</u>	<u>1,911,407</u>	<u>100.0%</u>

(1) The amounts as of December 31, 2003 exclude the amounts for the restructuring-related disposal and write-off.

Loans to New Customers, as a percentage of our total corporate loans and discounted bills, increased from 23.5% as of December 31, 2002, to 56.5% as of June 30, 2005.

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The following table sets forth, as of the dates indicated, our non-performing loans and non-performing loan ratios for loans to our Pre-existing Customers and New Customers.

	As of December 31,									As of June 30,		
	2002			2003			2004			2005		
	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)												
Pre-existing Customers . . .	285,109	98.1%	25.05%	76,375 ⁽²⁾	94.3%	8.25%	61,856	76.1%	7.15%	58,995	69.8%	7.10%
New Customers	5,418	1.9	1.55	4,605 ⁽³⁾	5.7	0.67	19,435	23.9	2.12	25,536	30.2	2.36
Total	<u>290,527</u>	<u>100.0%</u>	<u>19.53%</u>	<u>80,980</u>	<u>100.0%</u>	<u>5.02%</u>	<u>81,291</u>	<u>100.0%</u>	<u>4.56%</u>	<u>84,531</u>	<u>100.0%</u>	<u>4.42</u>

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

(2) The amount as of December 31, 2003 excludes RMB 169,930 million in non-performing loans within the amount for the restructuring-related disposal and write-off.

(3) The amount as of December 31, 2003 excludes RMB 6,437 million in non-performing loans within the amount for the restructuring-related disposal and write-off.

As of June 30, 2005, the total non-performing loan ratio for our corporate loans and discounted bills was 4.42%, a decrease from 4.56% as of December 31, 2004. The total non-performing loan ratio for corporate loans and discounted bills as of December 31, 2004 decreased from 5.02% as of December 31, 2003 and 19.53% as of December 31, 2002. Assuming that the restructuring-related disposal and write-off did not occur and that the balance of the corporate loans and discounted bills disposed of and written off was added back as of December 31, 2003, our total non-performing loan ratio for corporate loans and discounted bills would have been 14.39% as of that date. Apart from the impact of the restructuring-related disposal and write-off, the decrease in the non-performing loan ratio for corporate loans and discounted bills from December 31, 2002 to June 30, 2005 was due to the combination of a decrease in the non-performing loan ratio of loans to Pre-existing Customers and an increased proportion of loans to New Customers, on which we have experienced a relatively low non-performing loan ratio, in our total portfolio of corporate loans and discounted bills.

Pre-existing Customers

The non-performing loan ratio for loans to Pre-existing Customers decreased to 7.10% as of June 30, 2005 from 7.15% as of December 31, 2004, primarily due to our strengthened risk management policies and procedures, particularly in collection efforts. The non-performing loan ratio for loans to Pre-existing Customers decreased to 7.15% as of December 31, 2004 from 8.25% as of December 31, 2003 and 25.05% as of December 31, 2002. Assuming that the restructuring-related disposal and write-off did not occur and that the balance of the loans to Pre-existing Customers disposed of and written off was added back as of December 31, 2003, the non-performing loan ratio for loans to Pre-existing Customers would have been 22.49% as of that date. Apart from the impact of the restructuring-related disposal and write-off, the decrease in the non-performing loan ratio for loans to Pre-existing Customers from December 31, 2002 to December 31, 2004 was primarily due to a combination of the continuing improvement in the overall economy and our strengthened risk management policies and procedures.

New Customers

The non-performing loan ratio for loans to New Customers increased to 2.36% as of June 30, 2005 from 2.12% as of December 31, 2004 and 0.67% as of December 31, 2003. This increase from December 31,

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2003 through June 30, 2005 was primarily due to the effect of the PRC government's macroeconomic policy measures on certain industries.

The non-performing loan ratio for loans to New Customers decreased to 0.67% as of December 31, 2003 from 1.55% as of December 31, 2002. Assuming that the restructuring-related disposal and write-off did not occur and that the balance of the loans to New Customers disposed of and written off was added back as of December 31, 2003, the non-performing loan ratio for loans to New Customers would have increased slightly to 1.59% as of December 31, 2003 compared to 1.55% as of December 31, 2002.

The following table sets forth, as of the dates indicated, the changes in the outstanding amounts of non-performing corporate loans and discounted bills.

	<u>Amount</u>	<u>NPL ratio</u>
	(in millions of RMB, except percentages)	
As of December 31, 2002	<u>290,527</u>	19.53%
Downgrades	18,851	
Downgrades from split classifications ⁽¹⁾	1,303	
Upgrades	(16,718)	
Recoveries	(29,603)	
Transfers out ⁽²⁾	(8,383)	
Write-offs	(1,863)	
NPLs in loans extended in 2003	<u>3,233</u>	
NPLs before restructuring-related disposal and write-off	<u>257,347</u>	14.39%
Restructuring-related disposal	(119,691)	
Restructuring-related write-off	<u>(56,676)</u>	
As of December 31, 2003	<u>80,980</u>	5.02%
Downgrades	34,293	
Downgrades from split classifications ⁽¹⁾	491	
Upgrades	(12,973)	
Recoveries	(14,778)	
Transfers out ⁽²⁾	(1,631)	
Write-offs	(6,216)	
NPLs in loans extended in 2004	<u>1,125</u>	
As of December 31, 2004	<u>81,291</u>	4.56%
Downgrades	13,033	
Downgrades from split classifications ⁽¹⁾	984	
Upgrades	(2,701)	
Recoveries	(8,225)	
Transfers out ⁽²⁾	(77)	
Write-offs	(601)	
NPLs in loans extended in six months ended June 30, 2005	<u>827</u>	
As of June 30, 2005	<u>84,531</u>	4.42%

(1) "Split classifications" refers to situations in which a borrower has two or more loans and at least one loan was classified as performing while another loan was classified as non-performing at the end of the previous period. The amount in this item represents the loans that were downgraded in the current period from performing status to non-performing status.

(2) Consists of (i) the transfer of non-performing loan assets to repossessed assets; and (ii) the transfer of non-performing loan assets to equity holdings obtained through debt-to-equity swaps.

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As of June 30, 2005, the balance of our non-performing corporate loans and discounted bills increased by 4.0% compared to December 31, 2004, primarily due to the impact of the PRC government's macroeconomic policy measures. However, as previously explained, the non-performing loan ratio for our corporate loans and discounted bills continued to decrease.

As of December 31, 2004, the non-performing loan balance of our total corporate loan and discounted bill portfolio increased slightly in absolute terms compared to December 31, 2003, even though, as previously explained, our non-performing loan ratio continued to decrease. This represented a slowdown in the improvement of our asset quality compared to what we achieved in the course of 2003, and was due primarily to the impact of the PRC government's macroeconomic policy measures.

As of December 31, 2003, even excluding the impact of the restructuring-related disposal and write-off, our non-performing loan balance decreased compared to December 31, 2002, both in absolute terms and as a percentage of our total corporate loan and discounted bill portfolio. This improvement was primarily attributable to the combined effect of a favorable economic environment and the strengthening of our risk management policies and procedures.

For details of the restructuring-related disposal and write-off, see “— Distribution of the Restructuring-related Disposal and Write-off.”

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,		
	2002			2003 ⁽¹⁾			2004			2005		
	Amount	% of total	NPL ratio ⁽²⁾	Amount	% of total	NPL ratio ⁽²⁾	Amount	% of total	NPL ratio ⁽²⁾	Amount	% of total	NPL ratio ⁽²⁾
(in millions of RMB, except percentages)												
Corporate loans												
Working capital loans	204,004	67.4%	22.1%	56,976	66.8%	6.2%	59,635	68.3%	6.7%	61,038	65.8%	6.5%
Fixed asset loans	55,184	18.2	12.2	17,363	20.4	3.2	19,095	21.9	2.7	21,047	22.7	2.7
Others ⁽³⁾	30,974	10.3	49.3	6,432	7.5	17.5	2,559	2.9	8.3	2,438	2.6	9.0
Subtotal	290,162	95.9	20.2	80,771	94.7	5.4	81,289	93.1	5.0	84,523	91.1	4.9
Discounted bills	365	0.1	0.7	209	0.2	0.2	2	0.0	0.0	8	0.0	0.0
Personal loans												
Residential mortgage loans . .	8,059	2.7	3.8	2,910	3.4	1.1	3,442	3.9	1.1	4,675	5.0	1.4
Personal consumption loans . .	547	0.2	1.8	519	0.6	0.9	1,204	1.4	1.9	1,718	1.9	2.9
Others ⁽⁴⁾	3,280	1.0	11.9	650	0.8	1.8	1,323	1.5	3.4	1,792	1.9	4.4
Subtotal	11,886	3.9	4.4	4,079	4.8	1.1	5,969	6.8	1.4	8,185	8.8	1.9
Overseas operations	235	0.1	0.9	259	0.3	0.8	120	0.1	0.4	95	0.1	0.3
Total non-performing loans	<u>302,648</u>	<u>100.0%</u>	<u>16.97%</u>	<u>85,318</u>	<u>100.0%</u>	<u>4.27%</u>	<u>87,380</u>	<u>100.0%</u>	<u>3.92%</u>	<u>92,811</u>	<u>100.0%</u>	<u>3.91%</u>

(1) The amounts as of December 31, 2003 exclude the amounts for the restructuring-related disposal and write-off.

(2) Calculated by dividing non-performing loans in each category by total loans in that category.

(3) Primarily consists of factoring, overdrafts, trade finance facilities and on-lending loans.

(4) Primarily consists of education loans, individual commercial property mortgage loans and credit card overdrafts.

We have generally experienced lower non-performing loan ratios for personal loans and discounted bills than for our corporate loans. Within our corporate loans, we have generally experienced lower non-performing

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loan ratios in fixed asset loans; this is primarily attributable to the relatively low non-performing loan ratios of infrastructure loans.

The increase in the total non-performing loan ratio for personal loans as of June 30, 2005 compared to December 31, 2004 was affected by increased interest rates in China, which led to an increase in defaults. The increase in the non-performing loan ratio for residential mortgage loans as of June 30, 2005 from December 31, 2004 was also attributable to the impact of the PRC government's macroeconomic policy measures on the real estate industry. As credit to the industry tightened, some real estate developers faced liquidity problems and delayed a number of development projects. Since it is common in China for newly built homes to be purchased before they are completed, the delay in completion of homes in the affected projects led to an increase in mortgage defaults among purchasers of such homes. The increase in the non-performing loan ratio for personal consumption loans as of June 30, 2005 from December 31, 2004 reflected an increase in non-performing automobile loans.

The following table sets forth, as of the dates indicated, the distribution by product type of our non-performing loans that were collectively assessed for impairment. See "Financial Information — Critical Accounting Policies — Allowance for Impairment Losses on Loans and Advances" and Note 17(c) to our consolidated financial statements included in the Accountants' Report in Appendix I to this prospectus.

	As of December 31,						As of June 30,	
	2002		2003 ⁽¹⁾		2004		2005	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)								
Corporate loans								
Working capital loans	50,737	60.0%	34,334	65.4%	34,388	63.9%	30,424	57.1%
Fixed asset loans	15,707	18.6	11,650	22.2	12,661	23.5	13,921	26.2
Others ⁽²⁾	<u>6,091</u>	<u>7.2</u>	<u>2,404</u>	<u>4.6</u>	<u>816</u>	<u>1.5</u>	<u>711</u>	<u>1.3</u>
Subtotal	<u>72,535</u>	<u>85.8</u>	<u>48,388</u>	<u>92.2</u>	<u>47,865</u>	<u>88.9</u>	<u>45,056</u>	<u>84.6</u>
Discounted bills	<u>124</u>	<u>0.1</u>	<u>10</u>	<u>0.0</u>	<u>2</u>	<u>0.0</u>	<u>8</u>	<u>0.0</u>
Personal loans								
Residential mortgage loans	8,059	9.6	2,910	5.6	3,442	6.4	4,675	8.8
Personal consumption loans	547	0.6	519	1.0	1,204	2.2	1,718	3.2
Others ⁽³⁾	<u>3,280</u>	<u>3.9</u>	<u>650</u>	<u>1.2</u>	<u>1,323</u>	<u>2.5</u>	<u>1,792</u>	<u>3.4</u>
Subtotal	<u>11,886</u>	<u>14.1</u>	<u>4,079</u>	<u>7.8</u>	<u>5,969</u>	<u>11.1</u>	<u>8,185</u>	<u>15.4</u>
Overseas operations	<u>39</u>	<u>0.0</u>	<u>21</u>	<u>0.0</u>	<u>11</u>	<u>0.0</u>	<u>9</u>	<u>0.0</u>
Total	<u>84,584</u>	<u>100.0%</u>	<u>52,498</u>	<u>100.0%</u>	<u>53,847</u>	<u>100.0%</u>	<u>53,258</u>	<u>100.0%</u>

(1) The amounts as of December 31, 2003 exclude the amounts for the restructuring-related disposal and write-off.

(2) Primarily consists of factoring, overdrafts, trade finance facilities and on-lending loans.

(3) Primarily consists of education loans, individual commercial property mortgage loans and credit card overdrafts.

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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,		
	2002			2003 ⁽¹⁾			2004			2005		
	Amount	% of total	NPL ratio ⁽²⁾	Amount	% of total	NPL ratio ⁽²⁾	Amount	% of total	NPL ratio ⁽²⁾	Amount	% of total	NPL ratio ⁽²⁾
(in millions of RMB, except percentages)												
Manufacturing												
Petrochemical, coal and nuclear products	3,016	1.0%	7.1%	1,149	1.4%	3.4%	177	0.2%	0.6%	233	0.3%	0.9%
Iron and steel	3,936	1.4	9.8	501	0.6	1.2	1,033	1.3	2.2	851	1.0	1.6
Chemical products	13,311	4.6	34.2	2,620	3.2	8.1	2,416	3.0	6.2	2,195	2.6	5.3
Electronic products	4,383	1.5	16.9	1,078	1.3	4.0	1,698	2.1	5.1	2,324	2.7	6.3
Textile and garment	6,166	2.1	32.7	2,057	2.6	9.6	1,801	2.2	8.5	1,379	1.6	7.0
Metal processing	3,414	1.2	19.8	1,578	2.0	8.4	851	1.1	3.7	1,158	1.4	4.9
Cement processing	5,573	1.9	37.1	806	1.0	5.6	1,572	1.9	7.8	2,091	2.5	8.5
Others	49,138	17.0	30.4	9,590	11.9	6.0	12,963	15.9	7.1	14,132	16.7	7.2
Subtotal	<u>88,937</u>	<u>30.7</u>	<u>24.7</u>	<u>19,379</u>	<u>24.0</u>	<u>5.6</u>	<u>22,511</u>	<u>27.7</u>	<u>5.7</u>	<u>24,363</u>	<u>28.8</u>	<u>5.8</u>
Transportation, storage and postal services	12,185	4.2	6.3	3,461	4.3	1.7	2,643	3.3	1.1	3,532	4.2	1.3
Production and supply of electric power, gas and water	15,052	5.2	7.9	6,308	7.8	3.1	8,969	11.0	3.9	8,822	10.4	3.4
Property development	57,809	19.9	27.3	22,889	28.3	9.2	19,341	23.8	7.9	19,115	22.6	7.4
Construction	22,997	7.9	29.1	5,883	7.3	7.6	4,850	6.0	5.9	4,410	5.2	5.0
Telecommunications, computer services and software	2,453	0.8	2.8	770	1.0	0.9	1,057	1.3	1.5	1,367	1.6	1.8
Water, environment and public utility management	4,418	1.5	10.6	1,952	2.4	3.8	1,331	1.6	2.4	1,525	1.8	2.2
Wholesale and retail	39,431	13.6	48.1	7,000	8.7	11.2	7,165	8.8	12.6	7,417	8.8	12.2
Education	814	0.3	3.9	417	0.5	1.1	553	0.7	1.1	479	0.6	0.8
Mining	7,782	2.7	21.7	907	1.1	2.2	813	1.0	1.5	878	1.0	1.7
Others ⁽³⁾	38,284	13.2	28.1	11,805	14.6	8.3	12,056	14.8	8.2	12,615	15.0	9.7
Total corporate non-performing loans	<u>290,162</u>	<u>100.0%</u>	<u>20.2%</u>	<u>80,771</u>	<u>100.0%</u>	<u>5.4%</u>	<u>81,289</u>	<u>100.0%</u>	<u>5.0%</u>	<u>84,523</u>	<u>100.0%</u>	<u>4.8%</u>

- (1) The amounts as of December 31, 2003 exclude RMB 119.7 billion in corporate loans within the amount for the restructuring-related disposal, as well as RMB 56.7 billion in corporate loans within the amount for the restructuring-related write-off.
- (2) Calculated by dividing non-performing loans in each category by total loans in that category.
- (3) Primarily consists of leasing and commercial services; residential services; health care, social security and social welfare; culture, sports and entertainment; government agencies and social organizations.

We have historically experienced higher non-performing loan ratios for the wholesale and retail, property development, construction and manufacturing industries compared to our overall loan portfolio.

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The following table sets forth, as of the dates indicated, the distribution by industry of our non-performing corporate loans that were collectively assessed for impairment. See “Financial Information — Critical Accounting Policies — Allowance for Impairment Losses on Loans and Advances” and Note 17(c) to our consolidated financial statements included in the Accountants’ Report in Appendix I to this prospectus.

	As of December 31,						As of June 30,	
	2002		2003 ⁽¹⁾		2004		2005	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Manufacturing								
Petrochemical, coal and nuclear products	1,823	2.5%	1,031	2.1%	141	0.3%	185	0.4%
Iron and steel	1,492	2.1	214	0.4	306	0.6	223	0.5
Chemical products	2,848	3.9	1,124	2.3	1,623	3.4	1,320	2.9
Electronic products	811	1.1	687	1.4	597	1.2	1,087	2.4
Textile and garment	1,289	1.8	1,220	2.5	1,103	2.3	712	1.6
Metal processing	1,192	1.6	1,044	2.2	473	1.0	666	1.5
Cement processing	1,223	1.7	300	0.6	1,088	2.3	1,227	2.7
Others	10,756	14.9	5,434	11.3	6,901	14.5	6,446	14.3
Subtotal	21,434	29.6	11,054	22.8	12,232	25.6	11,866	26.3
Transportation, storage and postal services	4,618	6.4	2,618	5.4	1,641	3.4	2,267	5.0
Production and supply of electric power, gas and water	6,901	9.6	5,159	10.7	7,359	15.4	7,294	16.2
Property development	15,612	21.5	13,461	27.8	11,652	24.3	11,013	24.5
Construction	4,956	6.8	3,505	7.2	2,941	6.1	2,435	5.4
Telecommunications, computer services and software	669	0.9	335	0.7	496	1.0	721	1.6
Water, environment and public utility management	1,473	2.0	1,010	2.1	908	1.9	1,066	2.4
Wholesale and retail	4,430	6.1	3,520	7.3	3,519	7.4	2,847	6.3
Education	306	0.4	335	0.7	504	1.1	408	0.9
Mining	3,227	4.4	433	0.9	484	1.0	427	0.9
Others ⁽²⁾	8,909	12.3	6,958	14.4	6,129	12.8	4,712	10.5
Total	72,535	100.0%	48,388	100.0%	47,865	100.0%	45,056	100.0%

(1) The amounts as of December 31, 2003 exclude the amounts for the restructuring-related disposal and write-off.

(2) Primarily consists of leasing and commercial services; residential services; health care, social security and social welfare; culture, sports and entertainment; government agencies and social organizations.

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. For a description of our geographical regions, see “Definitions and Conventions.”

	As of December 31,									As of June 30,		
	2002			2003 ⁽¹⁾			2004			2005		
	Amount	% of total	NPL ratio ⁽²⁾	Amount	% of total	NPL ratio ⁽²⁾	Amount	% of total	NPL ratio ⁽²⁾	Amount	% of total	NPL ratio ⁽²⁾
	(in millions of RMB, except percentages)											
Yangtze River Delta	39,506	13.0%	10.56%	13,215	15.5%	2.84%	12,083	13.8%	2.21%	12,141	13.1%	2.06%
Pearl River Delta	56,191	18.6	21.85	14,921	17.5	5.40	15,616	17.9	5.41	15,873	17.1	5.11
Bohai Rim	52,174	17.2	14.51	17,161	20.1	4.21	17,477	20.0	3.82	19,458	21.0	4.10
Central	60,467	20.0	21.97	11,644	13.6	3.82	10,962	12.6	3.03	13,039	14.0	3.31
Western	52,028	17.2	17.34	15,135	17.7	4.57	19,715	22.6	5.52	21,013	22.6	5.45
Northeastern	35,437	11.7	28.48	10,199	12.0	8.43	8,933	10.2	6.54	8,605	9.3	5.93
Head office	6,610	2.2	9.74	2,784	3.3	4.60	2,474	2.8	5.63	2,587	2.8	6.42
Overseas operations	235	0.1	0.94	259	0.3	0.83	120	0.1	0.36	95	0.1	0.28
Total non-performing loans	302,648	100.0%	16.97%	85,318	100.0%	4.27%	87,380	100.0%	3.92%	92,811	100.0%	3.91%

(1) The amounts as of December 31, 2003 exclude the amounts for the restructuring-related disposal and write-off.

(2) Calculated by dividing non-performing loans in each category by total loans in that category.

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As of June 30, 2005, our non-performing loan ratio for the Yangtze River Delta was the lowest among all domestic geographical regions, and our non-performing loan ratio for our head office was the highest among all geographical regions. The non-performing loan ratio for our head office reflected an increase in its collections on certain large performing loans as part of our effort to reduce our borrower concentration, as well as a decrease in its new loan origination activity.

The following table sets forth, as of the dates indicated, the distribution by geography of our non-performing loans that were collectively assessed for impairment. See “Financial Information — Critical Accounting Policies — Allowance for Impairment Losses on Loans and Advances” and Note 17(c) to our consolidated financial statements included in the Accountants’ Report in Appendix I to this prospectus. For definitions of our geographical regions, see “Definitions and Conventions.”

	As of December 31,						As of June 30,	
	2002		2003 ⁽¹⁾		2004		2005	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)								
Yangtze River Delta	12,959	15.4%	8,802	16.8%	8,034	15.0%	7,635	14.4%
Pearl River Delta	13,469	15.9	8,319	15.9	9,014	16.7	8,593	16.1
Bohai Rim	17,083	20.2	11,625	22.1	11,357	21.1	11,125	20.9
Central	13,911	16.4	6,268	11.9	6,860	12.7	7,202	13.5
Western	15,472	18.3	8,299	15.8	12,401	23.0	13,063	24.5
Northeastern	9,625	11.4	7,088	13.5	6,141	11.4	5,318	10.0
Head office	2,026	2.4	2,076	4.0	29	0.1	313	0.6
Overseas operations	39	0.0	21	0.0	11	0.0	9	0.0
Total	<u>84,584</u>	<u>100.0%</u>	<u>52,498</u>	<u>100.0%</u>	<u>53,847</u>	<u>100.0%</u>	<u>53,258</u>	<u>100.0%</u>

(1) The amounts as of December 31, 2003 exclude the amounts for the restructuring-related disposal and write-off.

Ten Largest Non-performing Borrowers

The following table sets forth, as of June 30, 2005, our borrowers with the ten largest non-performing loan balances outstanding.

As of June 30, 2005				
Industry	Amount	Classification	% of total non-performing loans	% of regulatory capital
(in millions of RMB, except percentages)				
Borrower A	3,780	Substandard	4.1%	1.4%
Borrower B	957	Doubtful	1.0	0.4
Borrower C	916	Substandard	1.0	0.4
Borrower D	544	Doubtful	0.6	0.2
Borrower E	515	Doubtful	0.6	0.2
Borrower F	510	Substandard	0.5	0.2
Borrower G	465	Substandard	0.5	0.2
Borrower H	427	Substandard	0.5	0.2
Borrower I	368	Doubtful	0.4	0.1
Borrower J	365	Doubtful	0.3	0.1
Total	<u>8,847</u>		<u>9.5%</u>	<u>3.4%</u>

(1) Included in “others” category under “— Loans and Advances to Customers — Distribution of Corporate Loans by Industry.”

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Loan Aging Schedule

The following table sets forth, as of the dates indicated, our loan aging schedule for our loans and advances to customers.

	As of December 31,						As of June 30,	
	2002		2003 ⁽¹⁾		2004		2005	
	<u>Amount</u>	<u>% of total</u>	<u>Amount</u>	<u>% of total</u>	<u>Amount</u>	<u>% of total</u>	<u>Amount</u>	<u>% of total</u>
	(in millions of RMB, except percentages)							
Current loans	1,510,210	84.7%	1,890,506	94.6%	2,101,099	94.3%	2,223,895	93.7%
Loans past due for:								
1 to 90 days	42,475	2.4	37,596	1.9	43,036	2.0	47,046	2.0
91 days to 180 days	11,060	0.6	8,354	0.4	13,776	0.6	12,236	0.5
181 days or more	194,807	10.9	30,170	1.5	36,058	1.6	57,389	2.4
Subtotal	<u>248,342</u>	<u>13.9</u>	<u>76,120</u>	<u>3.8</u>	<u>92,870</u>	<u>4.2</u>	<u>116,671</u>	<u>4.9</u>
Overseas operations	24,930	1.4	31,128	1.6	33,457	1.5	33,876	1.4
Total loans to customers	<u>1,783,482</u>	<u>100.0%</u>	<u>1,997,754</u>	<u>100.0%</u>	<u>2,227,426</u>	<u>100.0%</u>	<u>2,374,442</u>	<u>100.0%</u>
Loans overdue for 91 days or more	205,867	11.5%	38,524	1.9%	49,834	2.2%	69,625	2.9%

(1) The amounts as of December 31, 2003 exclude the amounts for the restructuring-related disposal and write-off.

Distribution of the Restructuring-related Disposal and Write-off

The following table sets forth the distribution of our disposal and write-off of non-performing loans, as part of our restructuring, by product type.

	Restructuring-related disposal		Restructuring-related write-off	
	<u>Amount</u>	<u>% of total</u>	<u>Amount</u>	<u>% of total</u>
	(in millions of RMB, except percentages)			
Corporate loans	119,691	92.9%	56,676	99.6%
Discounted bills	—	—	—	—
Personal loans	<u>9,209</u>	<u>7.1</u>	<u>220</u>	<u>0.4%</u>
Total	<u>128,900</u>	<u>100.0%</u>	<u>56,896</u>	<u>100.0%</u>

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The following table sets forth the distribution of the restructuring-related disposal and write-off by industry for corporate loans.

	Restructuring-related disposal		Restructuring-related write-off	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
Manufacturing				
Petrochemical, coal and nuclear products	514	0.4%	n.a. ⁽¹⁾	n.a. ⁽¹⁾
Metal processing	1,367	1.1	n.a.	n.a.
Iron and steel	1,604	1.3	n.a.	n.a.
Textile and garment	2,456	2.1	n.a.	n.a.
Cement processing	2,521	2.1	n.a.	n.a.
Electronic products	2,581	2.2	n.a.	n.a.
Chemical products	6,224	5.2	n.a.	n.a.
Others	22,692	18.9	n.a.	n.a.
Subtotal	39,959	33.3	19,758	34.8%
Property development	19,825	16.6	8,363	14.8
Wholesale and retail	17,301	14.5	12,274	21.7
Construction	10,246	8.6	4,047	7.1
Transportation, storage and postal services	5,623	4.7	1,000	1.8
Production and supply of electric power, gas and water	4,139	3.5	992	1.8
Leasing and commercial services	3,437	2.9	3,174	5.6
Mining	3,413	2.9	1,864	3.3
Government agencies and non-governmental organizations	3,111	2.6	717	1.3
Hotels and restaurants	2,825	2.4	1,040	1.8
Agriculture, forestry and fishing	2,196	1.8	921	1.6
Culture, sports and entertainment	1,717	1.4	400	0.7
Telecommunications, computer services and software industry	1,542	1.3	287	0.5
Residential and other services	1,447	1.2	956	1.7
Water, environment and public utility management	1,256	1.0	220	0.4
Education	415	0.3	64	0.1
Others	1,239	1.0	599	1.0
Total	119,691	100.0%	56,676	100.0%

(1) "n.a." means not available.

Allowance for Impairment Losses on Loans and Advances to Customers

In late 2003, we began to assess our loans for impairment, determine a level of allowance for impairment losses, and recognize any related provisions made in a year, using the concept of impairment under IAS 39. See "Financial Information — Critical Accounting Policies — Allowance for Impairment Losses on Loans and Advances." For purposes of our consolidated financial statements and this prospectus, the allowance for impairment losses and provisions for impairment losses are presented as if we had assessed our loans for impairment on a consistent basis as of and for the six months ended June 30, 2005 and the years ended December 31, 2004, 2003 and 2002.

Our loans and advances are reported net of the allowance for impairment losses on our consolidated balance sheet. We make a provision to the allowance for impairment losses against loans if there is objective

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evidence of impairment as a result of events occurring after the initial recognition of loans which affect the estimated future cash flows of the loans.

The allowance for impairment losses of loans is measured as the difference between the carrying amounts and the estimated recoverable amounts of the loans. The estimated recoverable amounts are the present value of the estimated future cash flows of the loans and the recoverable value of the collateral.

For a description of our methodologies in calculating the estimated recoverable amount of loans, see “Financial Information — Critical Accounting Policies — Allowance for Impairment Losses on Loans and Advances.”

Distribution of Allowance for Impairment Losses by Loan Classification

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

	As of December 31,									As of June 30,		
	2002			2003 ⁽¹⁾			2004			2005		
	Amount	% of total	Allowance to loans ⁽²⁾	Amount	% of total	Allowance to loans ⁽²⁾	Amount	% of total	Allowance to loans ⁽²⁾	Amount	% of total	Allowance to loans ⁽²⁾
(in millions of RMB, except percentages)												
Normal	8,777	4.2%	0.77%	11,192	20.6%	0.72%	9,062	16.8%	0.51%	8,720	14.8%	0.45%
Special mention	8,023	3.9	2.34	8,354	15.4	2.28	10,438	19.4	2.81	9,558	16.2	2.86
Substandard	17,889	8.6	23.19	12,464	22.9	24.33	12,541	23.3	24.38	13,113	22.2	26.49
Doubtful	105,187	50.8	66.53	16,028	29.4	57.80	16,931	31.4	54.51	21,577	36.6	57.80
Loss	67,413	32.5	100.00	6,357	11.7	100.00	4,892	9.1	100.00	5,986	10.2	100.00
Total Allowance	<u>207,289</u>	<u>100.0%</u>	<u>11.62%</u>	<u>54,395</u>	<u>100.0%</u>	<u>2.72%</u>	<u>53,864</u>	<u>100.0%</u>	<u>2.42%</u>	<u>58,954</u>	<u>100.0%</u>	<u>2.48%</u>

(1) The allowance as of December 31, 2003 excludes the allowance relating to the restructuring-related disposal and write-off.

(2) Calculated by dividing the amount of the allowance for impairment losses on loans in each category by the total amount of loans 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 product type and by loan classification category.

	As of December 31,									As of June 30,		
	2002			2003 ⁽¹⁾			2004			2005		
	Amount	Allowance		Amount	Allowance		Amount	Allowance		Amount	Allowance	
% of total		to loans ⁽²⁾	% of total		to loans ⁽²⁾	% of total		to loans ⁽²⁾	% of total		to loans ⁽²⁾	
(in millions of RMB, except percentages)												
Corporate loans												
Normal	7,659	3.7%	0.94%	9,620	17.7%	0.89%	7,368	13.7%	0.62%	7,078	12.0%	0.53%
Special mention	7,357	3.5	2.23	7,485	13.8	2.15	9,365	17.4	2.64	8,694	14.7	2.69
Substandard	16,454	7.9	22.68	11,444	21.0	23.65	11,124	20.7	23.24	11,103	18.8	24.64
Doubtful	101,131	48.8	67.08	15,065	27.7	57.81	15,635	29.0	54.15	19,398	32.9	57.35
Loss	66,861	32.3	100.00	6,323	11.6	100.00	4,550	8.4	100.00	5,642	9.6	100.00
Subtotal	199,462	96.2%	13.86%	49,937	91.8%	3.31%	48,042	89.2%	2.96%	51,915	88.0%	2.98%
Discounted bills												
Normal	88	0.0%	0.18%	161	0.3%	0.16%	136	0.3%	0.09%	156	0.3%	0.09%
Special mention	1	0.0	0.14	3	0.0	0.26	4	0.0	0.70	1	0.0	0.20
Substandard	—	—	—	—	—	—	—	—	—	—	—	—
Doubtful	135	0.1	70.68	123	0.2	62.76	—	—	—	—	—	—
Loss	50	0.0	100.00	3	0.0	100.00	—	—	—	—	—	—
Subtotal	274	0.1%	0.56%	290	0.5%	0.28%	140	0.3%	0.09%	157	0.3%	0.09%
Personal loans												
Normal	933	0.5%	0.38%	1,292	2.4%	0.39%	1,415	2.6%	0.36%	1,355	2.3%	0.33%
Special mention	659	0.3	5.58	860	1.6	5.56	1,069	2.0	6.61	860	1.5	7.85
Substandard	1,428	0.7	32.20	1,019	1.9	36.22	1,416	2.6	39.86	2,009	3.4	45.42
Doubtful	3,814	1.8	54.74	671	1.2	53.98	1,242	2.3	59.20	2,130	3.6	62.10
Loss	484	0.2	100.00	22	0.0	100.00	319	0.6	100.00	332	0.6	100.00
Subtotal	7,318	3.5%	2.70%	3,864	7.1%	1.09%	5,461	10.1%	1.32%	6,686	11.4%	1.56%
Overseas operations	235	0.2%	0.94%	304	0.6%	0.98%	221	0.4%	0.66%	196	0.3%	0.58%
Total allowance	<u>207,289</u>	<u>100.0%</u>	<u>11.62%</u>	<u>54,395</u>	<u>100.0%</u>	<u>2.72%</u>	<u>53,864</u>	<u>100.0%</u>	<u>2.42%</u>	<u>58,954</u>	<u>100.0%</u>	<u>2.48%</u>

(1) The allowance as of December 31, 2003 excludes the allowance relating to the restructuring-related disposal and write-off.

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

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Changes to the Allowance for Impairment Losses

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

	As of and for the year ended December 31 and six months ended June 30, <u>June 30,</u>
	(in millions of RMB)
As of December 31, 2001	<u>199,325</u>
Charge for the year ⁽¹⁾	19,602
Unwinding of interest on impaired loans ⁽²⁾	(2,286)
Transfers out ⁽³⁾	(3,713)
Write-offs	(8,042)
Recoveries of loans and advances previously written off	<u>2,403</u>
As of December 31, 2002	<u>207,289</u>
Charge for the year ⁽¹⁾	9,662
Unwinding of interest on impaired loans ⁽²⁾	(1,991)
Transfers out ⁽³⁾	(3,492)
Write-offs	(58,558)
Recoveries of loans and advances previously written off	2,119
Releases on disposal of non-performing loans	(100,268)
Releases on disposal of loans and advances made to an investee company	<u>(366)</u>
As of December 31, 2003	<u>54,395</u>
Charge for the year ⁽¹⁾	6,109
Unwinding of interest on impaired loans ⁽²⁾	(520)
Transfers out ⁽³⁾	(432)
Write-offs	(6,342)
Recoveries of loans and advances previously written off	<u>654</u>
As of December 31, 2004	<u>53,864</u>
Charge for the six months ended June 30, 2005 ⁽¹⁾	6,064
Unwinding of interest on impaired loans ⁽²⁾	(367)
Transfers out ⁽³⁾	(15)
Write-offs	(632)
Recoveries of loans and advances previously written off	<u>40</u>
As of June 30, 2005	<u><u>58,954</u></u>

- (1) Represents the amount of the net provision for impairment losses recognized in our consolidated income statement.
- (2) Represents the amount of increase in the present value of a loan after impairment that is due to the passage of time, which we recognize as interest income.
- (3) Consists of releases from the loan loss allowance resulting from (i) the transfer of loan assets to repossessed assets; and (ii) the transfer of loan assets to equity holdings obtained through debt-to-equity swaps.

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The following table sets forth, for the periods indicated, our charge for the period by product type.

	For the years ended December 31,			For the six months ended June 30,	
	2002	2003	2004	2004	2005
	(unaudited)				
	(in millions of RMB)				
Corporate loans and discounted bills	16,913	7,789	4,488	1,113	4,823
Others ⁽¹⁾	<u>2,689</u>	<u>1,873</u>	<u>1,621</u>	<u>707</u>	<u>1,241</u>
Total charge for the period	<u>19,602</u>	<u>9,662</u>	<u>6,109</u>	<u>1,820</u>	<u>6,064</u>

(1) Consists of personal loans and loans made by our overseas operations.

The following table sets forth, for the periods indicated, the components of the net provision for impairment losses on our corporate loans and discounted bills.

	For the year ended December 31,			For the six months ended June 30,	
	2002	2003	2004	2004	2005
	(unaudited)				
	(in millions of RMB)				
Provisions for non-performing corporate loans and discounted bills ⁽¹⁾	25,066	21,978	12,477	5,865	9,423
Write-backs for non-performing corporate loans and discounted bills ⁽²⁾	<u>(13,951)</u>	<u>(20,082)</u>	<u>(10,683)</u>	<u>(6,830)</u>	<u>(4,765)</u>
Net provision (write-back) for non-performing corporate loans and discounted bills	11,115	1,896	1,794	(965)	4,658
Provision for performing corporate loans and discounted bills ⁽³⁾	<u>5,798</u>	<u>5,893</u>	<u>2,694</u>	<u>2,078</u>	<u>165</u>
Charge for the period ⁽⁴⁾	<u>16,913</u>	<u>7,789</u>	<u>4,488</u>	<u>1,113</u>	<u>4,823</u>

(1) Represents additions to the allowance for such loans.

(2) Represents releases from the allowance for such loans.

(3) Represents additions to the allowance for such loans net of releases from the allowance.

(4) Represents the net provision for impairment losses on corporate loans and discounted bills.

Six Months Ended June 30, 2005 Compared to Six Months Ended June 30, 2004. Our allowance for impairment losses as of June 30, 2005 was RMB 59.0 billion, an increase of 9.5% from RMB 53.9 billion as of December 31, 2004, primarily attributable to the net provision for impairment losses for the six months ended June 30, 2005. The net provision for impairment losses increased to RMB 6.1 billion for the six months ended June 30, 2005 compared to RMB 1.8 billion for the six months ended June 30, 2004. This increase was primarily attributable to the net provision for impairment losses on our corporate loans and discounted bills, which increased to RMB 4.8 billion in the first half of 2005 from RMB 1.1 billion in the first half of 2004.

The net provision for impairment losses on our corporate loans and discounted bills increased primarily due to an increase in the net provision for non-performing corporate loans and discounted bills to RMB 4.7 billion for the six months ended June 30, 2005 from a net write-back of RMB 965 million for the six months ended June 30, 2004, partially offset by a decrease in the net provision for performing corporate loans and discounted bills to RMB 165 million in the first half of 2005 from RMB 2.1 billion in the first half of 2004. The net provision for non-performing corporate loans and discounted bills for the six months ended June 30, 2005 increased compared to the six months ended June 30, 2004 primarily due to an increase of

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RMB 3.6 billion in provisions for non-performing corporate loans and discounted bills, coupled with a decrease of RMB 2.1 billion in write-backs.

Provisions for non-performing corporate loans and discounted bills for the six months ended June 30, 2005 increased compared to the six months ended June 30, 2004 primarily due to a decrease in the estimated recoverable amount on loans classified as doubtful, an increase in the historical loss rate used in assessing the loan portfolio classified as substandard for impairment, and an increase in downgrades of loans classified as substandard. Write-backs for the six months ended June 30, 2005 decreased compared to the six months ended June 30, 2004 primarily due to a decrease in the upgrades of non-performing loans.

The provision for performing corporate loans and discounted bills for the six months ended June 30, 2005 decreased compared to the six months ended June 30, 2004 primarily due to a decrease in the historical loss rate used in assessing the loan portfolio classified as normal for impairment. This was attributable to the more proactive and timely approach we have taken in downgrading loans in recent years as part of our strengthened risk management policies and procedures.

The coverage ratios of our total allowance for impairment losses to total non-performing loans and to total loans to customers were 63.5% and 2.48%, respectively, as of June 30, 2005 compared to 61.6% and 2.42%, respectively, as of December 31, 2004.

2004 Compared to 2003. Our allowance for impairment losses as of December 31, 2004 was RMB 53.9 billion, which remained effectively stable, compared to RMB 54.4 billion as of December 31, 2003. The two items that most affected the change in our allowance in 2004 were the net provision for impairment losses and a reduction of the allowance resulting from loan write-offs.

The net provision for impairment losses decreased by RMB 3.6 billion, or 36.8%, in 2004 compared to 2003. This decrease was primarily attributable to the net provision for impairment losses on our corporate loans and discounted bills, which decreased by RMB 3.3 billion, or 42.4%, in the same period. Since the net provision for non-performing corporate loans and discounted bills remained effectively stable at RMB 1.8 billion in 2004 compared to RMB 1.9 billion in 2003, the primary reason for the decrease in the net provision for impairment losses for corporate loans and discounted bills in 2004 compared to 2003 was the RMB 3.2 billion, or 54.3%, decrease in the provision for performing corporate loans and discounted bills.

Provisions and write-backs for non-performing corporate loans and discounted bills decreased by similar amounts and percentages in 2004 compared to 2003. These decreases were primarily affected by the restructuring-related disposal and write-off, as a result of which we had lower balances of doubtful and loss loans in 2004 in respect of which we made provisions and write-backs compared to 2003. The decrease in provisions for non-performing corporate loans and discounted bills in 2004 compared to 2003 was also attributable to a decrease in the downgrades of loans classified as doubtful. The decrease in write-backs in 2004 compared to 2003 was also due to a decrease in the upgrades of loans from non-performing status to performing status.

The provision for performing corporate loans and discounted bills in 2004 decreased compared to 2003 primarily due to a combination of (i) decrease in the historical loss rate used in assessing the loan portfolio classified as normal for impairment, for the reason explained in “— Six Months Ended June 30, 2005 Compared to Six Months Ended June 30, 2004”; and (ii) slower growth in our corporate loans and discounted bills in 2004 compared to 2003.

Releases from the allowance resulting from write-offs of non-performing loans in 2004 related primarily to corporate loans classified as loss loans. The significant decrease in releases from write-offs

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compared to 2003 was attributable to the fact that the amount in 2003 included the release resulting from the restructuring-related write-off.

Releases from the allowance resulting from transfers out in 2004 were attributable primarily to transfers of loans to repossessed assets. There was a significant decrease in such transfers compared to 2003.

The coverage ratios of our total allowance for impairment losses to total non-performing loans and to total loans to customers were 61.6% and 2.42%, respectively, as of December 31, 2004, compared to 63.8% and 2.72%, respectively, as of December 31, 2003.

2003 Compared to 2002. Our allowance for impairment losses as of December 31, 2003 decreased by RMB 152.9 billion, or 73.8%, compared to RMB 207.3 billion as of December 31, 2002. The decrease was primarily due to (i) a RMB 100.3 billion release from the allowance resulting from the disposal of RMB 128.9 billion of non-performing loans in connection with our restructuring and (ii) an RMB 58.6 billion release from the allowance resulting from loan write-offs primarily in connection with our restructuring. For details relating to the composition of the restructuring-related disposal and write-off, see “— Distribution of Restructuring-related Disposal and Write-off.”

The net provision for impairment losses decreased by RMB 9.9 billion, or 50.7%, in 2003 compared to 2002. This decrease was primarily attributable to the net provision for impairment losses on our corporate loans, which decreased by RMB 9.1 billion, or 53.9%, in the same period. Since the provision for performing corporate loans remained effectively stable in 2003 compared to 2002, the decrease in the net provision for corporate loans in 2003 compared to 2002 was due entirely to the decrease in provisions for non-performing corporate loans and discounted bills net of write-backs.

Our provisions for non-performing corporate loans and discounted bills net of write-backs were RMB 1.9 billion in 2003 compared to RMB 11.1 billion in 2002. This decrease resulted from the combination of an increase in write-backs of RMB 6.1 billion, or 43.9%, and a decrease in provisions of RMB 3.1 billion, or 12.3%, compared to 2002. Write-backs increased in 2003 compared to 2002 primarily due to an increase in the collection of loans classified as doubtful. Provisions decreased in 2003 compared to 2002 primarily due to a decrease in the downgrades of loans from performing status to non-performing status, coupled with a decrease in the downgrades of loans classified as substandard and doubtful.

The balances of our allowance for impairment losses as of December 31, 2003 and 2002 were also affected by a relatively high level of recoveries from loans previously written off, as well as a relatively high level of releases resulting from the transfer of loans to repossessed assets or equity holdings.

The coverage ratios of our total allowance for loan losses to total non-performing loans and to total loans to customers were 63.8% and 2.72%, respectively, at December 31, 2003, compared to 68.5% and 11.62%, respectively, at December 31, 2002.

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Distribution of Allowance for Impairment Losses by Product Type

The following table sets forth, as of the dates indicated, the allowance for impairment losses by product type.

	As of December 31,									As of June 30,		
	2002			2003 ⁽¹⁾			2004			2005		
	Amount	% of total	Allowance to NPLs ⁽²⁾	Amount	% of total	Allowance to NPLs ⁽²⁾	Amount	% of total	Allowance to NPLs ⁽²⁾	Amount	% of total	Allowance to NPLs ⁽²⁾
(in millions of RMB, except percentages)												
Corporate loans												
Working capital												
loans	140,478	67.8%	68.86%	34,487	63.4%	60.53%	32,694	60.7%	54.82%	35,755	60.7%	58.58%
Fixed asset loans . . .	37,995	18.3	68.85	12,150	22.3	69.98	13,685	25.4	71.67	14,432	24.5	68.57
Others ⁽³⁾	20,989	10.1	67.76	3,300	6.1	51.31	1,663	3.1	64.99	1,728	2.9	70.88
Subtotal	<u>199,462</u>	<u>96.2</u>	<u>68.74</u>	<u>49,937</u>	<u>91.8</u>	<u>61.83</u>	<u>48,042</u>	<u>89.2</u>	<u>59.10</u>	<u>51,915</u>	<u>88.1</u>	<u>61.42</u>
Discounted bills	274	0.1	75.07	290	0.5	138.76	140	0.3	7,000.00	157	0.3	1,962.50
Personal loans												
Residential mortgage												
loans	4,910	2.4	60.93	2,863	5.3	98.38	3,175	5.9	92.24	3,905	6.6	83.53
Personal												
consumption loans	357	0.2	65.27	458	0.8	88.25	1,210	2.2	100.50	1,518	2.6	88.36
Others ⁽⁴⁾	2,051	1.0	62.53	543	1.0	83.54	1,076	2.0	81.33	1,263	2.1	70.48
Subtotal	<u>7,318</u>	<u>3.6</u>	<u>61.57</u>	<u>3,864</u>	<u>7.1</u>	<u>94.73</u>	<u>5,461</u>	<u>10.1</u>	<u>91.49</u>	<u>6,686</u>	<u>11.3</u>	<u>81.69</u>
Overseas operations	235	0.1	100.00	304	0.6	117.37	221	0.4	184.17	196	0.3	206.32
Total allowance . .	<u>207,289</u>	<u>100.0%</u>	<u>68.49%</u>	<u>54,395</u>	<u>100.0%</u>	<u>63.76%</u>	<u>53,864</u>	<u>100.0%</u>	<u>61.64%</u>	<u>58,954</u>	<u>100.0%</u>	<u>63.52%</u>

- (1) The allowance as of December 31, 2003 excludes the allowance relating to the restructuring-related disposal and write-off.
- (2) 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.
- (3) Primarily consists of factoring, overdrafts, trade finance facilities and on-lending loans.
- (4) Primarily consists of individual commercial property mortgage loans, education loans and credit card overdrafts.

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The following table sets forth, as of the dates indicated, the distribution by product type of the allowance for impairment losses on our non-performing loans that were collectively assessed for impairment. See “Financial Information — Critical Accounting Policies — Allowance for Impairment Losses on Loans and Advances” and Note 17(c) to our consolidated financial statements included in the Accountants’ Report in Appendix I to this prospectus.

	As of December 31,						As of June 30,	
	2002		2003 ⁽¹⁾		2004		2005	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)								
Corporate loans								
Working capital loans	11,510	51.9%	8,121	61.8%	7,992	56.7%	7,497	48.1%
Fixed asset loans	3,562	16.1	2,755	20.9	2,942	20.9	3,431	22.1
Others ⁽²⁾	1,382	6.2	568	4.3	190	1.3	175	1.1
Subtotal	<u>16,454</u>	<u>74.2</u>	<u>11,444</u>	<u>87.0</u>	<u>11,124</u>	<u>78.9</u>	<u>11,103</u>	<u>71.3</u>
Discounted bills	—	—	—	—	—	—	—	—
Personal loans								
Residential mortgage loans	3,701	16.7	1,280	9.7	1,693	12.0	2,546	16.4
Personal consumption loans	225	1.0	187	1.4	583	4.1	922	5.9
Others ⁽³⁾	1,800	8.1	245	1.9	701	5.0	1,003	6.4
Subtotal	<u>5,726</u>	<u>25.8</u>	<u>1,712</u>	<u>13.0</u>	<u>2,977</u>	<u>21.1</u>	<u>4,471</u>	<u>28.7</u>
Overseas operations	7	0.0	1	0.0	1	0.0	—	—
Total	<u><u>22,187</u></u>	<u><u>100.0%</u></u>	<u><u>13,157</u></u>	<u><u>100.0%</u></u>	<u><u>14,102</u></u>	<u><u>100.0%</u></u>	<u><u>15,574</u></u>	<u><u>100.0%</u></u>

(1) The allowance as of December 31, 2003 excludes the allowance relating to the restructuring-related disposal and write-off.

(2) Primarily consists of factoring, overdrafts, trade finance facilities and on-lending loans.

(3) Primarily consists of education loans, individual commercial property mortgage loans and credit card overdrafts.

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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,		
	2002			2003 ⁽¹⁾			2004			2005		
	Amount	% of total	Allowance to NPLs ⁽²⁾	Amount	% of total	Allowance to NPLs ⁽²⁾	Amount	% of total	Allowance to NPLs ⁽²⁾	Amount	% of total	Allowance to NPLs ⁽²⁾
	(in millions of RMB, except percentages)											
Manufacturing,												
Petrochemical, coal and nuclear products	1,754	0.9%	58.16%	642	1.3%	55.87%	283	0.6%	159.89%	286	0.5%	122.75%
Iron and steel	2,751	1.4	69.89	794	1.6	158.48	1,047	2.2	101.36	995	1.9	116.92
Chemical products	9,181	4.6	68.97	1,967	3.9	75.08	1,398	2.9	57.86	1,283	2.5	58.45
Electronic products	3,426	1.7	78.17	816	1.6	75.70	839	1.7	49.41	1,378	2.7	59.29
Textile and garment	4,329	2.2	70.21	1,183	2.4	57.51	856	1.8	47.53	740	1.4	53.66
Metal processing . . .	2,268	1.1	66.43	865	1.7	54.82	622	1.3	73.09	838	1.6	72.37
Cement processing	3,836	1.9	68.83	719	1.4	89.21	724	1.5	46.06	1,091	2.1	52.18
Others	<u>34,396</u>	<u>17.3</u>	<u>70.00</u>	<u>6,740</u>	<u>13.5</u>	<u>70.28</u>	<u>7,139</u>	<u>14.9</u>	<u>55.07</u>	<u>8,447</u>	<u>16.3</u>	<u>59.77</u>
Subtotal	<u>61,941</u>	<u>31.1</u>	<u>69.65</u>	<u>13,726</u>	<u>27.4</u>	<u>70.83</u>	<u>12,908</u>	<u>26.9</u>	<u>57.34</u>	<u>15,058</u>	<u>29.0</u>	<u>61.81</u>
Transportation, storage and postal services	8,457	4.2	69.41	3,172	6.4	91.65	3,269	6.8	123.69	3,701	7.1	104.78
Production and supply of electric power, gas and water	9,238	4.6	61.37	3,487	7.0	55.28	5,075	10.6	56.58	5,067	9.8	57.44
Property development	36,235	18.2	62.68	10,353	20.7	45.23	10,148	21.1	52.47	10,063	19.4	52.64
Construction	15,808	7.9	68.74	3,989	8.0	67.81	2,883	6.0	59.44	2,711	5.2	61.47
Telecommunications, computer services and software	2,533	1.3	103.26	1,131	2.3	146.88	1,011	2.1	95.65	1,092	2.1	79.88
Water, environment and public utility management	2,766	1.4	62.61	1,183	2.4	60.60	1,126	2.3	84.60	1,330	2.5	87.21
Wholesale and retail . . .	30,493	15.3	77.33	4,969	10.0	70.99	3,835	8.0	53.52	4,146	8.0	55.90
Education	665	0.3	81.70	427	0.9	102.40	660	1.4	119.35	653	1.3	136.33
Mining	4,739	2.4	60.90	1,205	2.4	132.86	764	1.6	93.97	770	1.5	87.70
Others ⁽³⁾	<u>26,587</u>	<u>13.3</u>	<u>69.45</u>	<u>6,295</u>	<u>12.5</u>	<u>53.32</u>	<u>6,363</u>	<u>13.2</u>	<u>52.78</u>	<u>7,324</u>	<u>14.1</u>	<u>58.06</u>
Total allowance for corporate loans	<u>199,462</u>	<u>100.0%</u>	<u>68.74%</u>	<u>49,937</u>	<u>100.0%</u>	<u>61.83%</u>	<u>48,042</u>	<u>100.0%</u>	<u>59.10%</u>	<u>51,915</u>	<u>100.0%</u>	<u>61.42%</u>

- (1) The allowance as of December 31, 2003 excludes the amount of the allowance attributable to the corporate loans within the restructuring-related disposal and write-off.
- (2) 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.
- (3) Primarily consists of leasing and commercial services; residential services; health care, social security and social welfare; culture, sports and entertainment; government agencies and social organizations.

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The following table sets forth, as of the dates indicated, the distribution by industry of the allowance for impairment losses on our non-performing corporate loans that were collectively assessed for impairment. See “Financial Information — Critical Accounting Policies — Allowance for Impairment Losses on Loans and Advances” and Note 17(c) to our consolidated financial statements included in the Accountants’ Report in Appendix I to this prospectus.

	As of December 31,						As of June 30,	
	2002		2003 ⁽¹⁾		2004		2005	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)								
Manufacturing								
Petrochemical, coal and nuclear products	414	2.5%	244	2.1%	33	0.3%	46	0.4%
Iron and steel	339	2.1	51	0.4	71	0.6	55	0.5
Chemical products	646	3.9	266	2.3	377	3.4	325	2.9
Electronic products	184	1.1	163	1.4	139	1.2	268	2.4
Textile and garment	293	1.8	289	2.5	256	2.3	175	1.6
Metal processing	271	1.6	247	2.2	110	1.0	164	1.5
Cement processing	278	1.7	71	0.6	253	2.3	302	2.7
Others	2,427	14.8	1,284	11.3	1,606	14.4	1,588	14.3
Subtotal	4,852	29.5	2,615	22.8	2,845	25.5	2,923	26.3
Transportation, storage and postal services	1,048	6.4	619	5.4	381	3.4	559	5.0
Production and supply of electric power, gas and water	1,568	9.5	1,220	10.7	1,710	15.4	1,797	16.2
Property development	3,544	21.6	3,184	27.8	2,709	24.4	2,714	24.5
Construction	1,126	6.8	829	7.2	683	6.1	600	5.4
Telecommunication, computer services and software	152	0.9	79	0.7	115	1.0	178	1.6
Water, environment and public utility management	334	2.0	239	2.1	211	1.9	263	2.4
Wholesale and retail	1,006	6.1	832	7.3	818	7.4	702	6.3
Education	69	0.4	79	0.7	117	1.1	101	0.9
Mining	733	4.5	102	0.9	112	1.0	105	0.9
Others ⁽²⁾	2,022	12.3	1,646	14.4	1,423	12.8	1,161	10.5
Total	16,454	100.0%	11,444	100.0%	11,124	100.0%	11,103	100.0%

(1) The allowance as of December 31, 2003 excludes the amount of the allowance attributable to the corporate loans within the restructuring-related disposal and write-off.

(2) Primarily consists of leasing and commercial services; residential services; health care, social security and social welfare; culture, sports and entertainment; government agencies and social organizations.

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,					
	2002		2003 ⁽¹⁾		2004		2005		2005		2005	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)												
Yangtze River Delta	26,580	12.8%	67.28%	9,473	17.4%	71.68%	9,594	17.8%	79.40%	9,788	16.6%	80.62%
Pearl River Delta	39,162	18.9	69.69	9,785	18.0	65.58	9,114	16.9	58.36	10,004	17.0	63.03
Bohai Rim	34,866	16.8	66.83	10,415	19.1	60.69	10,534	19.6	60.27	12,356	21.0	63.50
Central	44,127	21.3	72.98	8,450	15.5	72.57	7,599	14.1	69.32	8,575	14.5	65.76
Western	34,979	16.9	67.23	10,113	18.6	66.82	11,045	20.5	56.02	11,885	20.2	56.56
Northeastern	22,657	10.9	63.94	4,517	8.3	44.29	4,108	7.6	45.99	4,608	7.8	53.55
Head office	4,683	2.3	70.85	1,338	2.5	48.06	1,649	3.1	66.65	1,542	2.6	59.61
Overseas operations	235	0.1	100.00	304	0.6	117.37	221	0.4	184.17	196	0.3	206.32
Total Allowance	207,289	100.0%	68.49%	54,395	100.0%	63.76%	53,864	100.0%	61.64%	58,954	100.0%	63.52%

(1) The allowance as of December 31, 2003 excludes the allowance relating to the restructuring-related disposal and write-off.

(2) 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.

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The following table sets forth, as of the dates indicated, the distribution by geographical region of the allowance for impairment losses on our non-performing loans that were collectively assessed for impairment. See “Financial Information — Critical Accounting Policies — Allowance for Impairment Losses on Loans and Advances” and Note 17(c) to our consolidated financial statements included in the Accountants’ Report in Appendix I to this prospectus. For definitions of our geographical regions, see “Definitions and Conventions.”

	2002		As of December 31,				As of June 30,	
	Amount	% of total	2003 ⁽¹⁾		2004		2005	
			Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Yangtze River Delta	3,080	13.9%	2,170	16.5%	2,008	14.2%	2,105	13.5%
Pearl River Delta	3,792	17.1	2,094	15.9	2,412	17.1	2,587	16.6
Bohai Rim	4,920	22.2	2,872	21.8	3,085	21.9	3,477	22.3
Central	3,602	16.2	1,526	11.6	1,758	12.5	2,056	13.2
Western	4,044	18.2	2,224	16.9	3,218	22.8	3,669	23.6
Northeastern	2,281	10.3	1,779	13.5	1,606	11.4	1,587	10.2
Head office	460	2.1	491	3.8	14	0.1	93	0.6
Overseas operations	8	0.0	1	0.0	1	0.0	—	—
Total	22,187	100.0%	13,157	100.0%	14,102	100.0%	15,574	100.0%

(1) The allowance as of December 31, 2003 excludes the allowance relating to the restructuring-related disposal and write-off.

The changes in the amount of the allowance for impairment losses on our non-performing loans that were collectively assessed for impairment, as shown in “— Distribution of Allowance for Impairment Losses by Product Type,” “— Distribution of Allowance for Impairment Losses for Corporate Loans by Industry” and “— Distribution of Allowance for Impairment Losses by Geographical Region,” primarily reflected, in addition to changes in the amounts of the relevant loan portfolios, (i) changes in our historical loss experience for the relevant personal loan and substandard corporate loan portfolios, as applicable; and (ii) changes in the economic and credit environment in China generally, particularly as a result of such factors as the performance of the economy and the introduction of the PRC government’s macroeconomic policy measures.

ASSETS AND LIABILITIES

Investments

Our investment portfolio consists of listed and unlisted Renminbi- and foreign currency-denominated securities. Investments represented 30.2%, 28.3%, 22.6% and 26.6% of our total assets as of June 30, 2005, December 31, 2004, 2003 and 2002, respectively. We classify our investment portfolio into (i) receivables, (ii) held-to-maturity, (iii) available-for-sale, and (iv) debt securities at fair value through profit or loss (primarily consisting of debt securities held for trading purposes), primarily based on our intentions with respect to these securities. For presentation purposes in this section of the prospectus, we classify our investments into (i) debt instruments, (ii) receivables, and (iii) equity instruments. The following table sets forth, as of the dates indicated, the components of our investment portfolio.

	As of December 31,						As of June 30,	
	2002		2003		2004		2005	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Debt instruments ⁽¹⁾	361,774	47.6%	421,801	52.4%	657,423	59.4%	825,219	64.7%
Receivables	360,306	47.5	352,593	43.8	433,858	39.2	435,676	34.1
Equity instruments ⁽²⁾	37,006	4.9	29,992	3.8	16,355	1.4	14,883	1.2
Total investments	<u>759,086</u>	<u>100.0%</u>	<u>804,386</u>	<u>100.0%</u>	<u>1,107,636</u>	<u>100.0%</u>	<u>1,275,778</u>	<u>100.0%</u>

(1) Consists of debt securities, which are accounted for in our financial statements as held-to-maturity debt securities, available-for-sale debt securities and debt securities at fair value through profit or loss; and excludes debt-like obligations which are accounted for as receivables in our financial statements.

(2) Accounted for in our financial statements as available-for-sale equity securities.

Our total investments increased by 15.2% to RMB 1,275.8 billion as of June 30, 2005 from RMB 1,107.6 billion as of December 31, 2004, primarily due to an increase in investments in debt instruments. This increase resulted from a combination of an increase in overall funding from customer deposits and an increased allocation of such funding to investments compared to lending, consistent with the tightening of our credit policies partially in response to the PRC government's macroeconomic measures.

Our total investments increased by 37.7% to RMB 1,107.6 billion as of December 31, 2004 compared to RMB 804.4 billion as of December 31, 2003, primarily because we (i) increased our investment in foreign currency-denominated debt securities consistent with an increase in our foreign currency funding, primarily as a result of the Huijin equity contribution; (ii) experienced an increase in overall funding from customer deposits; (iii) purchased a PBOC bill with a face value of RMB 63.4 billion with an interest rate of 1.89% in June 2004; and (iv) received a PBOC bill with a face value of RMB 21.0 billion with an interest rate of 1.89% in June 2004. For details on these PBOC bills, see "— Receivables — PBOC bills."

Our total investments increased by 6.0% to RMB 804.4 billion as of December 31, 2003 from RMB 759.1 billion as of December 31, 2002 primarily due to an increase in overall funding from customer deposits.

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Debt Instruments

Our debt instruments consist of listed and unlisted debt securities issued primarily by governments, policy banks, central banks, other banks and financial institutions, and public sector entities. Debt instruments represented 64.7%, 59.4%, 52.4% and 47.6% of our investment portfolio as of June 30, 2005, December 31, 2004, 2003 and 2002, respectively. The following table sets forth, as of the dates indicated, the debt instruments in our investment portfolio by category of issuer.

	As of December 31,						As of June 30,	
	2002		2003		2004		2005	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)								
Central banks	48,983	13.6%	69,903	16.6%	120,124	18.3%	272,406	33.0%
Governments	179,889	49.7	194,867	46.2	256,354	39.0	237,441	28.8
Policy banks	85,776	23.7	104,301	24.7	128,324	19.5	138,552	16.8
Banks and other financial institutions	27,273	7.5	32,449	7.7	66,524	10.1	107,790	13.1
Public sector entities	10,133	2.8	9,897	2.3	69,038	10.5	56,997	6.9
Others	9,720	2.7	10,384	2.5	17,059	2.6	12,033	1.4
Total debt instruments	<u>361,774</u>	<u>100.0%</u>	<u>421,801</u>	<u>100.0%</u>	<u>657,423</u>	<u>100.0%</u>	<u>825,219</u>	<u>100.0%</u>

Our debt instruments increased by 25.5% to RMB 825.2 billion as of June 30, 2005 from RMB 657.4 billion as of December 31, 2004, reflecting increased investments in PBOC bills and in debt instruments issued by banks and other financial institutions outside the PRC. Our debt instruments increased by 55.9% to RMB 657.4 billion as of December 31, 2004 compared to RMB 421.8 billion as of December 31, 2003, which increased by 16.6% compared to RMB 361.8 billion as of December 31, 2002. The increase in our debt instruments as of December 31, 2004 compared to December 31, 2003 was primarily due to the proceeds of the Huijin equity contribution and an increase in overall funding from customer deposits. The increase in the balance primarily related to bonds issued by governments, public sector entities and central banks. The increase in our debt instruments as of December 31, 2003 compared to December 31, 2002 was due to a combination of an increase in overall funding from deposits from customers and the reinvestment of funds from surplus deposit reserves with central banks into debt instruments.

As of June 30, 2005, 75.4% of our debt instruments were issued by issuers in the PRC. The increase in the percentage of debt instruments issued by PRC issuers primarily reflected the increase in our investments in PBOC bills. The percentage of debt instruments issued by issuers outside the PRC increased to 30.2% as of December 31, 2004 compared to 14.7% as of December 31, 2003, primarily due to the increase in our foreign currency funding resulting from the Huijin equity contribution. The following table sets forth, as of the dates indicated, our debt instruments by location of the issuer.

	As of December 31,						As of June 30,	
	2002		2003		2004		2005	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)								
PRC	306,673	84.8%	359,647	85.3%	458,795	69.8%	622,389	75.4%
Outside PRC	55,101	15.2	62,154	14.7	198,628	30.2	202,830	24.6
Total debt instruments	<u>361,774</u>	<u>100.0%</u>	<u>421,801</u>	<u>100.0%</u>	<u>657,423</u>	<u>100.0%</u>	<u>825,219</u>	<u>100.0%</u>

ASSETS AND LIABILITIES

Receivables

Investments which we classify in our financial statements as receivables are financial assets (other than derivatives) with fixed or determinable payments that are not quoted in an active market or are not actively traded, and are neither classified as held-to-maturity nor available-for-sale. Receivables represented 34.1%, 39.2%, 43.8% and 47.5% of our total investments as of June 30, 2005, December 31, 2004, 2003 and 2002, respectively. The following table sets forth, as of the dates indicated, the components of the receivables in our investment portfolio.

	As of December 31,						As of June 30,	
	2002		2003		2004		2005	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Cinda bond	247,000	68.6%	247,000	70.0%	247,000	56.9%	247,000	56.7%
PBOC bills	—	—	—	—	84,354	19.4	84,354	19.4
Policy banks	59,887	16.6	54,556	15.5	52,671	12.1	52,692	12.1
PRC government bonds	53,419	14.8	50,967	14.4	49,763	11.5	49,730	11.4
PRC banks	—	—	70	0.1	70	0.1	1,900	0.4
Total receivables	360,306	100.0%	352,593	100.0%	433,858	100.0%	435,676	100.0%

We have received the PBOC's approval to treat the RMB 63.4 billion PBOC bill which we purchased as part of our restructuring and the RMB 49.2 billion PRC government bond which was issued by the MOF as part of a recapitalization program undertaken by the government in 1998, as part of our surplus deposit reserves used in part for settlement purposes. See "Regulation and Supervision — PRC Regulation and Supervision — Operating Requirements." See Note 18(a) of the Accountants' Report in Appendix I to this prospectus. This will allow us to adjust our treasury strategy, including the management of our surplus deposit reserve funds, to enhance our returns in addition to satisfying the PBOC's requirements with respect to funds for settlement purposes.

Cinda Bond

We received a bond with a face value of RMB 247.0 billion issued by Cinda as consideration for the disposal of certain non-performing assets in 1999. The Cinda bond matures in September 2009. The MOF has issued a notice providing support for the full repayment of principal and interest on the Cinda bond. See "Our Restructuring and Operational Reform — Our History," and "Risk Factors — Risks Relating to Our Business — We are subject to certain risks relating to the bond issued by Cinda."

PBOC Bills

In connection with our restructuring-related disposal, we purchased a bill with a face value of RMB 63.4 billion in June 2004. See "Our Restructuring and Operational Reform — Our Restructuring — Disposal and Write-off of Non-performing Loans" and "Financial Information — Financial Impact of Our Restructuring." In addition, in June 2004, we received a bill issued by the PBOC with a face value of RMB 21.0 billion. The bill was issued for the settlement of claims and liabilities of a trust and investment company for which China Construction Bank, our predecessor, acted as the receiver. As of June 30, 2004, the receivable for these claims and liabilities totaled RMB 16.2 billion. The difference of RMB 4.8 billion was recognized as an amount payable to Jianyin, which, under our separation agreement, became the receiver for the trust and investment company.

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Policy Banks

These securities represent securities with no active trading market issued by policy banks in the PRC, such as China Development Bank. Receivables from policy banks accounted for 4.1%, 4.8%, 6.8% and 7.9% of our total investment portfolio as of June 30, 2005, December 31, 2004, 2003 and 2002, respectively.

PRC Government Bonds

PRC government bonds primarily consist of a RMB 49.2 billion, 30-year special bond issued by the MOF in 1998 as part of the PRC government's efforts to improve the capital adequacy of the big four commercial banks. The bond bore an interest rate of 7.2% per year prior to December 1, 2004. Interest receivable on the bond prior to December 1, 2004 was settled by a portion of our profit distributions in the relevant period. From that date, the interest rate on the bond was reduced to 2.25% per year, and the interest is settled on a cash basis.

Equity Instruments

The following table sets forth, as of the dates indicated, the major components of our equity instruments.

	As of December 31,						As of June 30,	
	2002		2003		2004		2005	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Debt equity swap investments	34,949	94.4%	29,066	96.9%	15,421	94.3%	13,915	93.5%
Other equity investments	2,057	5.6	926	3.1	934	5.7	968	6.5
Total equity instruments	37,006	100.0%	29,992	100.0%	16,355	100.0%	14,883	100.0%

Our equity instruments primarily consist of equity holdings obtained through debt-to-equity swaps. As part of the PRC government's initiative in 1999 to reform state-owned enterprises, our predecessor acquired equity interests in certain large state-owned enterprises as a result of debt-to-equity swaps of loans made by our predecessor to those enterprises. The State Council and the CBRC specifically approved our succession to these assets as part of our separation. As such, these assets fall within the exception to the general prohibition under PRC law against commercial banks making investments in non-bank financial institutions. The decrease in the amount of our debt equity swap investments from December 31, 2002 to June 30, 2005 was primarily due to disposals of certain holdings, consistent with the government policy that such assets should be held for a limited period of time and should be disposed of when conditions permit. In addition to debt equity swap investments, we own minority equity investments in certain financial institutions.

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Maturity Profile of Investment Portfolio

The following table sets forth, as of June 30, 2005, our investment portfolio by remaining maturity.

	As of June 30, 2005								
	Due less than 3 months		Due between 3 to 12 months		Due between 1 to 5 years		Due more than 5 years		Total
	Amount	Weighted average yield ⁽¹⁾	Amount	Weighted average yield ⁽¹⁾	Amount	Weighted average yield ⁽¹⁾	Amount	Weighted average yield ⁽¹⁾	Amount
(in millions of RMB, except percentages)									
Debt instruments									
Central banks	96,556	1.14%	92,955	1.51%	82,895	2.59%	—	—	272,406
Governments	3,894	2.30	26,377	1.45	141,811	2.49	65,359	3.41%	237,441
Policy banks	4,210	1.15	8,155	1.49	64,306	2.52	61,881	3.37	138,552
Banks and other financial institutions	659	4.06	7,618	3.24	59,139	3.85	40,374	4.35	107,790
Public sector	12,405	3.19	8,141	3.59	22,045	4.20	14,406	4.85	56,997
Others	277	2.45	2,888	3.47	3,175	4.74	5,693	5.24	12,033
Subtotal	118,001	1.41	146,134	1.74	373,371	2.85	187,713	3.76	825,219
Receivables	2,820	1.14	—	—	366,814	2.17	66,042	2.38	435,676
Total	120,821	1.41%	146,134	1.74%	740,185	2.52%	253,755	3.40%	1,260,895

(1) The weighted average yield represents the yield to maturity for each individual category, and may not correspond to the average yield data presented in “Financial Information — Results of Operations — Net Interest Income.” Our current accounting system does not calculate the effective interest yield of investments by currency and asset type, for the following reasons: (i) the current accounting system for treasury operations was developed based on PRC GAAP, which only categorizes investments as “short-term” and “long-term,” unlike the more detailed breakdown under IFRS; and (ii) at the time the current accounting system was developed, our investments were primarily RMB-denominated investments of a relatively simple nature, such as government bonds and PBOC bills. Investments in U.S. dollar-denominated debt securities only became a significant portion of our investments in 2004 as a result of the equity contribution by Huijin. However, the front office of our treasury operations calculates and monitors the yield on our debt instruments on an individual and daily basis through the use of third-party transaction information systems, and calculates the weighted average yield of our debt instruments on a portfolio basis. We are in the process of updating the current financial reporting system for our treasury operations and expect to be able to calculate the effective interest yield of our investments by currency and asset type by the end of 2006.

Carrying Value and Market Value

All investment securities classified as available-for-sale and debt securities at fair value through profit or loss are stated at market value. The following table sets forth, as of the dates indicated, the carrying value and the market value of the receivables and held-to-maturity securities in our investment portfolio.

	As of December 31,						As of June 30,	
	2002		2003		2004		2005	
	Carrying value	Market/fair value	Carrying value	Market/fair value	Carrying value	Market/fair value	Carrying value	Market/fair value
(in millions of RMB)								
Receivables	360,306	384,068	352,593	344,898	433,858	414,724	435,676	431,389
Held-to-maturity securities	311,882	315,718	361,340	364,126	489,791	483,866	576,633	585,687

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Investment Concentration

The following table sets forth, as of June 30, 2005, our investment securities whose carrying value exceeded 10.0% of our shareholders' equity.

	As of June 30, 2005			
	Carrying value	% of total	% of total shareholders' equity ⁽¹⁾	Market/fair value
(in millions of RMB, except percentages)				
The PBOC	356,760	33.8%	177.6%	360,884
The MOF	258,190	24.5	128.5	260,128
Cinda ⁽²⁾	247,000	23.4	122.9	241,950
China Development Bank ⁽²⁾	169,623	16.1	84.4	172,766
U.S. Treasury	23,212	2.2	11.6%	23,195
Total	1,054,785	100.0%	—	1,058,923

(1) For a calculation of our total shareholders' equity, see "Financial Information — Capital Resources — Shareholders' Equity."

(2) Wholly owned by the PRC government.

Other Components of Our Assets

Other components of our assets primarily include (i) cash and balances with central banks, (ii) amounts due from banks and other financial institutions and (iii) other assets, such as property and equipment, deferred tax assets and certain receivables.

Cash and balances with central banks primarily consist of cash, statutory deposit reserves and surplus deposit reserves. Statutory 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 statutory deposit reserves, part of which we maintain for settlement purposes. The amount of cash and balances with central banks increased by 4.9% to RMB 419.0 billion as of June 30, 2005 from RMB 399.4 billion as of December 31, 2004, primarily due to increases in the statutory deposit reserve and reverse repurchase transactions with the PBOC, partially offset by a decrease in the surplus deposit reserve. The amount of cash and balances with central banks increased by 20.8% to RMB 399.4 billion as of December 31, 2004 from RMB 330.7 billion as of December 31, 2003, and increased by 15.8% as of December 31, 2003 from RMB 285.6 billion as of December 31, 2002. These increases were primarily due to the growth of statutory deposit reserves, which increased in line with the increase in deposits from customers and increases in minimum deposit reserve ratios.

Amounts due from banks and other financial institutions primarily consist of inter-bank placements and balances under resale agreements. Amounts due from banks and other financial institutions, net of the allowance for impairment losses, remained effectively stable at RMB 112.1 billion as of June 30, 2005 compared to RMB 112.5 billion as of December 31, 2004. Amounts due from banks and other financial institutions, net of the allowance for impairment losses, decreased by 52.6% to RMB 112.5 billion as of December 31, 2004 compared to RMB 237.5 billion as of December 31, 2003, primarily because we reinvested certain balances with banks and other financial institutions in higher-yielding debt instruments and lending activities. Amounts due from banks and other financial institutions increased by 108.3% to RMB 237.5 billion as of December 31, 2003 compared to RMB 114.0 billion as of December 31, 2002, primarily because the proceeds that we received from the Huijin equity contribution were placed with the SAFE as an inter-bank money market placement. For a discussion of the change in the average balances of amounts due from banks

ASSETS AND LIABILITIES

and other financial institutions and the impact on our interest income, see “Financial Information — Results of Operations — Net Interest Income.” Our allowance for impairment losses for amounts due from banks and other financial institutions amounted to RMB 2.6 billion, RMB 2.7 billion, RMB 3.8 billion and RMB 6.5 billion as of June 30, 2005, December 31, 2004, 2003 and 2002, respectively.

Other assets include, among other things, property and equipment, deferred tax assets, and certain receivables. The amount of other assets decreased by 12.9% to RMB 101.7 billion as of June 30, 2005 from RMB 116.8 billion as of December 31, 2004, primarily due to the settlement of the remaining balance of RMB 23.8 billion of the RMB 65.5 billion government receivable in connection with our restructuring through our profit distribution in respect of the six months ended June 30, 2005. The amount of other assets decreased by 51.5% to RMB 116.8 billion as of December 31, 2004 compared to RMB 241.0 billion as of December 31, 2003, which increased by 95.8% from RMB 123.1 billion as of December 31, 2002. The changes in the amounts of other assets from December 31, 2002 to December 31, 2004 were primarily attributable to (i) the recognition in 2003 of the RMB 65.5 billion government receivable, and the partial settlement in the amount of RMB 41.7 billion of such receivable in 2004; and (ii) the recognition in 2003 of the RMB 64.5 billion receivable in connection with our restructuring-related disposal, which was settled in full in 2004. See “Financial Information — Financial Impact of Our Restructuring.”

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 June 30,	
	2002		2003		2004		2005	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)								
Deposits from customers.....	2,822,744	94.4%	3,195,673	94.8%	3,491,121	94.0%	3,781,295	94.0%
Amounts due to banks and other financial institutions	106,461	3.5	109,174	3.2	112,039	3.0	125,064	3.1
Subordinated bonds	—	—	—	—	39,896	1.1	39,902	1.0
Other liabilities ⁽¹⁾	61,937	2.1	65,014	2.0	71,313	1.9	76,887	1.9
Total liabilities	<u>2,991,142</u>	<u>100.0%</u>	<u>3,369,861</u>	<u>100.0%</u>	<u>3,714,369</u>	<u>100.0%</u>	<u>4,023,148</u>	<u>100.0%</u>

(1) Consists of amounts due to central banks, certificates of deposit, current tax liabilities, deferred tax liabilities, and other liabilities and provisions.

As of June 30, 2005, our total liabilities were RMB 4,023.1 billion, an increase of 8.3% from RMB 3,714.4 billion as of December 31, 2004. Our total liabilities increased by 10.2% to RMB 3,714.4 billion as of December 31, 2004 from RMB 3,369.9 billion as of December 31, 2003, which increased by 12.7% from RMB 2,991.1 billion as of December 31, 2002. Deposits from customers have historically been our primary source of funding and represented 94.0%, 94.0%, 94.8% and 94.4% of our total liabilities, as of June 30, 2005, December 31, 2004, 2003 and 2002, respectively.

ASSETS AND LIABILITIES

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,	
	2002		2003		2004		2005	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)								
Corporate deposits								
Demand	1,196,808	42.4%	1,322,713	41.4%	1,389,028	39.8%	1,404,199	37.1%
Time	329,448	11.7	371,383	11.6	444,482	12.7	548,700	14.5
Subtotal	<u>1,526,256</u>	<u>54.1%</u>	<u>1,694,096</u>	<u>53.0%</u>	<u>1,833,510</u>	<u>52.5%</u>	<u>1,952,899</u>	<u>51.6%</u>
Personal deposits								
Demand	490,759	17.4	581,649	18.2	633,302	18.1	668,490	17.7
Time	795,848	28.2	909,188	28.5	1,013,998	29.1	1,142,180	30.2
Subtotal	<u>1,286,607</u>	<u>45.6%</u>	<u>1,490,837</u>	<u>46.7%</u>	<u>1,647,300</u>	<u>47.2%</u>	<u>1,810,670</u>	<u>47.9%</u>
Overseas operations	<u>9,881</u>	<u>0.3</u>	<u>10,740</u>	<u>0.3</u>	<u>10,311</u>	<u>0.3</u>	<u>17,726</u>	<u>0.5</u>
Total deposits from customers	<u><u>2,822,744</u></u>	<u><u>100.0%</u></u>	<u><u>3,195,673</u></u>	<u><u>100.0%</u></u>	<u><u>3,491,121</u></u>	<u><u>100.0%</u></u>	<u><u>3,781,295</u></u>	<u><u>100.0%</u></u>

As of June 30, 2005, our total deposits were RMB 3,781.3 billion, an increase of 8.3% from RMB 3,491.1 billion as of December 31, 2004. Our total deposits increased by 9.2% to RMB 3,491.1 billion as of December 31, 2004 from RMB 3,195.7 billion as of December 31, 2003, which increased by 13.2% from RMB 2,822.7 billion as of December 31, 2002. A greater proportion of our personal deposits consists of time deposits, which bear higher interest rates than demand deposits. A greater proportion of our corporate deposits consists of demand deposits primarily because our corporate customers often maintain demand deposit accounts to meet their potential liquidity requirements.

ASSETS AND LIABILITIES

Distribution of Deposits by Geographical Region

We classify deposits geographically based on the location of the branch taking the deposit. 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 books deposits from customers throughout China. 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,	
	2002		2003		2004		2005	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Yangtze River Delta . . .	549,229	19.5%	655,421	20.5%	726,774	20.8%	777,453	20.6%
Pearl River Delta	479,951	17.0	526,078	16.5	544,452	15.6	600,242	15.9
Bohai Rim	527,265	18.7	622,427	19.5	698,108	20.0	767,190	20.3
Central	472,181	16.7	550,822	17.2	604,301	17.3	646,291	17.1
Western	471,736	16.7	547,316	17.1	597,300	17.1	634,645	16.8
Northeastern	232,730	8.2	258,153	8.1	280,177	8.0	305,356	8.1
Head office	79,771	2.8	24,716	0.8	29,698	0.9	32,392	0.8
Overseas operations . . .	9,881	0.4	10,740	0.3	10,311	0.3	17,726	0.4
Total deposits from customers	<u>2,822,744</u>	<u>100.0%</u>	<u>3,195,673</u>	<u>100.0%</u>	<u>3,491,121</u>	<u>100.0%</u>	<u>3,781,295</u>	<u>100.0%</u>

Distribution of Deposits by Remaining Maturity

The following table sets forth, as of June 30, 2005, the distribution of our deposits from customers by remaining maturity.

	As of June 30, 2005										
	Repayable on demand		Due less than 3 months		Due between 3 to 12 months		Due between 1 to 5 years		Due more than 5 years		Total
	Amount	% of total deposits	Amount	% of total deposits	Amount	% of total deposits	Amount	% of total deposits	Amount	% of total deposits	
	(in millions of RMB, except percentages)										
Corporate deposits	1,427,332	37.7%	260,787	6.9%	223,484	5.9%	26,844	0.7%	14,452	0.4%	1,952,899
Personal deposits	687,593	18.2	278,629	7.4	599,754	15.9	241,238	6.4	3,456	0.1	1,810,670
Overseas operations	711	0.0	15,926	0.4	1,003	0.0	86	0.0	—	0.0	17,726
Total deposits from customers . . .	<u>2,115,636</u>	<u>55.9%</u>	<u>555,342</u>	<u>14.7%</u>	<u>824,241</u>	<u>21.8%</u>	<u>268,168</u>	<u>7.1%</u>	<u>17,908</u>	<u>0.5%</u>	<u>3,781,295</u>