

## ASSETS AND LIABILITIES

*The following discussion and analysis should be read in conjunction with the Accountants' Report in Appendix I, the Unaudited Interim Financial Report in Appendix II, the unaudited supplementary financial information in Appendix III and the selected financial data, in each case together with the accompanying notes, included elsewhere in this prospectus. The consolidated financial statements included in the Accountants' Report and the Unaudited Interim Financial Report have been prepared in accordance with IFRS.*

### ASSETS

At March 31, 2006, our total assets amounted to RMB766.7 billion, a 4.4% increase from RMB734.6 billion at December 31, 2005. Our total assets increased by 25.2% to RMB734.6 billion at December 31, 2005 from RMB586.7 billion at December 31, 2004, which in turn increased by 18.8% from RMB494.0 billion at December 31, 2003. The growth from December 31, 2003 to March 31, 2006 was primarily due to the growth in loans to customers and investment securities and other financial assets, the two principal components of our assets, and reflected the overall growth of our business. The following table sets forth, at the dates indicated, the components of our total assets.

	At December 31,						At March 31,	
	2003		2004		2005		2006	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
(in millions of RMB, except percentages)								
Loans to customers, total	307,480	62.2%	374,017	63.7%	472,185	64.2%	514,889	67.2%
Allowances for impairment losses	(8,520)	(1.7)	(10,920)	(1.8)	(13,510)	(1.8)	(14,297)	(1.9)
Loans to customers, net	298,960	60.5	363,097	61.9	458,675	62.4	500,592	65.3
Investment securities and other financial assets	91,389	18.5	112,645	19.2	131,902	18.0	134,650	17.5
Balances with central bank	50,652	10.3	54,987	9.4	62,102	8.4	54,850	7.2
Placements with banks and other financial institutions <sup>(1)</sup>	25,645	5.2	28,819	4.9	46,982	6.4	39,442	5.1
Cash and deposits with banks and other financial institutions <sup>(2)</sup>	16,829	3.4	15,372	2.6	22,491	3.1	22,736	3.0
Others <sup>(3)</sup>	10,542	2.1	11,795	2.0	12,461	1.7	14,410	1.9
<b>Total assets</b>	<b>494,017</b>	<b>100.0%</b>	<b>586,715</b>	<b>100.0%</b>	<b>734,613</b>	<b>100.0%</b>	<b>766,680</b>	<b>100.0%</b>

(1) Placements with banks and other financial institutions are net of the related allowance for impairment losses of RMB127 million, RMB249 million, RMB170 million and RMB185 million at March 31, 2006 and December 31, 2005, 2004 and 2003, respectively.

(2) Deposits with banks and other financial institutions are net of the related allowance for impairment losses of RMB99 million, RMB98 million, RMB120 million and RMB118 million at March 31, 2006 and December 31, 2005, 2004 and 2003, respectively.

(3) Consists of fixed assets, deferred tax assets and other assets.

### Loans to Customers

We provide a broad range of loan products to our customers through our branch network, the majority of which are denominated in Renminbi. Our loans to customers, net of the allowance for impairment losses, represented 65.3%, 62.4%, 61.9% and 60.5% of our total assets at March 31, 2006 and December 31, 2005, 2004 and 2003, respectively.

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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 are reported net of the allowance for impairment losses on our consolidated balance sheet.

At March 31, 2006, our total loans to customers amounted to RMB514.9 billion, an increase of 9.0% from RMB472.2 billion at December 31, 2005. Our total loans to customers increased by 26.2% to RMB472.2 billion at December 31, 2005 from RMB374.0 billion at December 31, 2004, which in turn increased by 21.6% from RMB307.5 billion at December 31, 2003.

### *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, at the dates indicated, our loans to customers by product type.

	At December 31,						At March 31,	
	2003		2004		2005		2006	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
(in millions of RMB, except percentages)								
Corporate loans	210,674	68.5%	258,370	69.1%	298,622	63.2%	315,473	61.3%
Discounted bills	62,224	20.2	60,886	16.3	99,527	21.1	121,392	23.6
Retail loans	34,582	11.3	54,761	14.6	74,036	15.7	78,024	15.1
<b>Total loans to customers</b>	<b>307,480</b>	<b>100.0%</b>	<b>374,017</b>	<b>100.0%</b>	<b>472,185</b>	<b>100.0%</b>	<b>514,889</b>	<b>100.0%</b>

Historically, corporate loans have been the largest component of our loan portfolio. In recent years, we have increased our efforts to expand our business in retail loans and discounted bills both in response to increasing market demand for these products and in line with our strategy of increasing the proportion of our retail loans and discounted bills, which are assigned lower credit risk weightings compared to corporate loans for capital adequacy purposes. As a result, our retail loans showed steady growth since December 31, 2003, and our discounted bills significantly increased from December 31, 2004 after a slight decrease from December 31, 2003 to December 31, 2004. Discounted bills and retail loans accounted for a larger aggregate percentage of our total loans at March 31, 2006 (38.7%) than at December 31, 2005 (36.8%), 2004 (30.9%) and 2003 (31.5%).

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### *Corporate Loans*

Corporate loans represented 61.3%, 63.2%, 69.1% and 68.5% of our total loans to customers at March 31, 2006 and December 31, 2005, 2004 and 2003, respectively. The following table sets forth, at the dates indicated, our corporate loans by product type.

	At December 31,						At March 31,	
	2003		2004		2005		2006	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
(in millions of RMB, except percentages)								
Working capital loans	188,485	89.5%	224,172	86.8%	242,524	81.2%	253,901	80.5%
Fixed asset loans	11,168	5.3	20,494	7.9	38,762	13.0	46,329	14.7
Trade finance	6,910	3.3	9,653	3.7	13,804	4.6	11,173	3.5
Others <sup>(1)</sup>	4,111	1.9	4,051	1.6	3,532	1.2	4,070	1.3
<b>Total corporate loans</b>	<b>210,674</b>	<b>100.0%</b>	<b>258,370</b>	<b>100.0%</b>	<b>298,622</b>	<b>100.0%</b>	<b>315,473</b>	<b>100.0%</b>

(1) Consists primarily of factoring and corporate mortgage loans.

At March 31, 2006, our corporate loans amounted to RMB315.5 billion, an increase of 5.6% from RMB298.6 billion at December 31, 2005. Corporate loans increased by 15.6% to RMB298.6 billion at December 31, 2005 from RMB258.4 billion at December 31, 2004, which in turn increased by 22.6% from RMB210.7 billion at December 31, 2003. The overall increase in corporate loans from December 31, 2003 to March 31, 2006 was primarily due to increases in working capital loans and fixed asset loans.

At March 31, 2006, our working capital loans amounted to RMB253.9 billion, an increase of 4.7% from RMB242.5 billion at December 31, 2005. Working capital loans increased to RMB242.5 billion at December 31, 2005 from RMB224.2 billion at December 31, 2004, which in turn increased from RMB188.5 billion at December 31, 2003. The increase in working capital loans from December 31, 2003 to March 31, 2006 was in line with our continued business expansion. However, as a percentage of our total corporate loan portfolio, working capital loans decreased to 80.5% at March 31, 2006 from 81.2%, 86.8% and 89.5% at December 31, 2005, 2004 and 2003, respectively, and fixed asset loans increased to 14.7% at March 31, 2006 from 13.0%, 7.9% and 5.3% at December 31, 2005, 2004 and 2003, respectively. These changes were primarily due to (i) the implementation of our lending guidance of increasing loans to strategic industries, including transportation, telecommunications and energy, which have seen an increasing demand for their products and services in line with the continuous growth of China's economy and require significant fixed asset loans to finance their infrastructure projects, and (ii) increased alternative funding sources for high-quality corporate entities to satisfy their working capital needs as a result of the continuing development of China's capital markets, therefore reducing their dependence on banks to provide working capital.

Trade finance loans decreased by 19.1% to RMB11.2 billion at March 31, 2006 from RMB13.8 billion at December 31, 2005, primarily due to the decreased demand for this product, which was attributable to an increase in market interest rates for foreign currency-denominated loans and the appreciation of the RMB against certain foreign currencies, including the U.S. dollar. Trade finance loans increased by 43.0% to RMB13.8 billion at December 31, 2005 from RMB9.7 billion at December 31, 2004, which in turn increased by 39.7% from RMB6.9 billion at December 31, 2003.

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This increase reflected increased demand for trade finance loans from our growing corporate customer base and our focus on the trade finance business.

### *Discounted Bills*

Discounted bills represented 23.6%, 21.1%, 16.3% and 20.2% of our total loans to customers at March 31, 2006 and December 31, 2005, 2004 and 2003, respectively.

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

	At December 31,						At March 31,	
	2003		2004		2005		2006	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
(in millions of RMB, except percentages)								
Bank acceptance bills . . . . .	49,728	79.9%	53,260	87.5%	88,565	89.0%	105,740	87.1%
Corporate acceptance bills . . . . .	12,496	20.1	7,626	12.5	10,962	11.0	15,652	12.9
<b>Total discounted bills . . . . .</b>	<b>62,224</b>	<b>100.0%</b>	<b>60,886</b>	<b>100.0%</b>	<b>99,527</b>	<b>100.0%</b>	<b>121,392</b>	<b>100.0%</b>

Discounted bills increased by 22.0% to RMB121.4 billion at March 31, 2006 from RMB99.5 billion at December 31, 2005, which in turn increased by 63.5% from RMB60.9 billion at December 31, 2004. This significant increase in discounted bills was primarily attributable to increased market demand and our continued focus on expanding this product. Our discounted bills decreased slightly to RMB60.9 billion at December 31, 2004 from RMB62.2 billion at December 31, 2003, primarily due to our increased resales of discounted bills ahead of their maturities prior to December 31, 2004. However, the daily average balance of our discounted bills increased by 62.4% in 2004 compared to 2003, reflecting our focus on the discounted bill business. See “Financial Information — Results of Operations — Years Ended December 31, 2005, 2004 and 2003 — Net Interest Income — Interest Income — Interest Income from Loans to Customers.”

Bank acceptance bills increased by 19.4% to RMB105.7 billion at March 31, 2006 from RMB88.6 billion at December 31, 2005, which in turn increased significantly from RMB53.3 billion at December 31, 2004 and RMB49.7 billion at December 31, 2003. The increase in bank acceptance bills from December 31, 2003 to March 31, 2006 was primarily due to a combination of (i) an overall increase in market demand for this product, and (ii) our increased focus on bank acceptance bills, as these bills generally present lower credit risk and are assigned lower credit risk weightings than corporate acceptance bills and corporate loans for capital adequacy purposes. As a percentage of our total discounted bill portfolio, bank acceptance bills increased to 89.0% at December 31, 2005 from 87.5% at December 31, 2004, which in turn increased from 79.9% at December 31, 2003; bank acceptance bills decreased to 87.1% at March 31, 2006 from 89.0% at December 31, 2005, and corporate acceptance bills increased to 12.9% at March 31, 2006 from 11.0% at December 31, 2005, primarily due to our increased purchase of corporate acceptance bills resold by other banks. As we have recourse to the banks selling these bills for repayment, we believe these bills present equivalent credit risk to bank acceptance bills. Excluding bills resold to us by banks, corporate acceptance bills, as a percentage of our total discounted bill portfolio, were 2.95%, 2.11%, 7.33% and 7.60% at March 31, 2006 and December 31, 2005, 2004 and 2003, respectively.

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### *Retail Loans*

Retail loans represented 15.1%, 15.7%, 14.6% and 11.3% of our total loans to customers at March 31, 2006 and December 31, 2005, 2004 and 2003, respectively. The following table sets forth, at the dates indicated, our retail loans by product type.

	At December 31,						At March 31,	
	2003		2004		2005		2006	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
(in millions of RMB, except percentages)								
Residential mortgage loans	26,820	77.5%	46,483	84.9%	64,609	87.3%	68,136	87.3%
Credit card balances	891	2.6	2,157	3.9	4,550	6.1	4,955	6.4
Automobile loans	3,103	9.0	2,102	3.8	1,144	1.6	1,033	1.3
Others <sup>(1)</sup>	3,768	10.9	4,019	7.4	3,733	5.0	3,900	5.0
<b>Total retail loans</b>	<b>34,582</b>	<b>100.0%</b>	<b>54,761</b>	<b>100.0%</b>	<b>74,036</b>	<b>100.0%</b>	<b>78,024</b>	<b>100.0%</b>

(1) Consists primarily of retail loans secured by monetary assets, home improvement loans, education loans and general consumption loans.

At March 31, 2006, our retail loans amounted to RMB78.0 billion, an increase of 5.4% from RMB74.0 billion at December 31, 2005. Retail loans increased by 35.2% to RMB74.0 billion at December 31, 2005 from RMB54.8 billion at December 31, 2004, which in turn increased by 58.4% from RMB34.6 billion at December 31, 2003. The increase in retail loans from December 31, 2003 to March 31, 2006 was primarily due to increases in residential mortgage loans.

At March 31, 2006, our residential mortgage loans amounted to RMB68.1 billion, an increase of 5.5% from RMB64.6 billion at December 31, 2005, reflecting our continued efforts to expand this product. However, our residential mortgage loans at March 31, 2006 grew at a slower rate than from December 31, 2003 to December 31, 2005, reflecting an overall slowdown in the growth of China's residential mortgage loan market.

Residential mortgage loans increased by 39.0% to RMB64.6 billion at December 31, 2005 from RMB46.5 billion at December 31, 2004, which in turn increased by 73.3% from RMB26.8 billion at December 31, 2003, primarily due to increased demand and our efforts to expand this business. The high growth rate of residential mortgage loans between December 31, 2003 and December 31, 2004 reflected the boom in China's residential real estate market, particularly in the affluent provinces and coastal cities where we have significant residential mortgage loan exposure, which generally led to increased volumes of sales in both the new and second-hand housing markets. We continued to be successful in our efforts to expand our residential mortgage loan business between December 31, 2004 and December 31, 2005, notwithstanding the fact that the residential real estate market began to cool down as a result of various measures adopted by the PRC government. These measures, combined with what we believe is a prudent lending policy towards real estate developers — which generally act as a main channel to residential mortgage customers for banks — and increased competition in the residential mortgage market, affected the rate of growth of our residential mortgage loans. In addition, since substantially all of our residential mortgage loans are floating-rate loans, the impact of the interest rate increases led to an increase in repayments ahead of maturity dates by our customers which partially offset the amount of new residential mortgage loans we made since 2004.

At March 31, 2006, our credit card balances amounted to RMB5.0 billion, an increase of 8.9% from RMB4.6 billion at December 31, 2005. Credit card balances increased by 110.9% to RMB4.6

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billion at December 31, 2005 from RMB2.2 billion at December 31, 2004, which in turn increased by 142.1% from RMB0.9 billion at December 31, 2003. The significant growth rate in credit card balances from December 31, 2003 to March 31, 2006 was primarily due to the increased acceptance of credit cards as a form of payment in China and our continued efforts to market our credit card products.

At March 31, 2006, our automobile loans were RMB1.0 billion, a decrease of 9.7% from RMB1.1 billion at December 31, 2005. Our automobile loans decreased by 45.6% to RMB1.1 billion at December 31, 2005 from RMB2.1 billion at December 31, 2004, which in turn decreased by 32.3% from RMB3.1 billion at December 31, 2003. As a percentage of our retail loans, automobile loans decreased to 1.3% at March 31, 2006 from 1.6% at December 31, 2005, 3.8% at December 31, 2004 and 9.0% at December 31, 2003. We have reduced our automobile loan exposure, primarily due to the relatively high credit risk of this product arising from increased default rates, the difficulties in realizing the value of collateral securing these loans, and a tightening of our credit policies.

Other retail loans consist primarily of retail loans secured by monetary assets, home improvement loans, education loans and general consumption loans. Other retail loans remained effectively stable from December 31, 2003 to March 31, 2006.

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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, at the dates indicated, the distribution of our corporate loans by industry classifications.

	At December 31,						At March 31,	
	2003		2004		2005		2006	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
(in millions of RMB, except percentages)								
Transportation and telecommunications . . .	48,086	22.8%	59,967	23.2%	66,154	22.2%	71,941	22.8%
Transportation . . . . .	21,611	10.2	21,797	8.4	22,517	7.6	19,575	6.2
Road development . . . . .	13,037	6.2	22,192	8.6	31,873	10.7	41,231	13.1
Telecommunications . . . . .	9,209	4.4	8,563	3.3	6,271	2.1	5,741	1.8
Others <sup>(1)</sup> . . . . .	4,229	2.0	7,415	2.9	5,493	1.8	5,394	1.7
Manufacturing . . . . .	47,210	22.4	61,621	23.8	75,735	25.3	73,799	23.4
Mechanical industry . . . . .	9,690	4.6	14,373	5.6	16,672	5.6	18,033	5.7
Electronics and computers . . . . .	9,528	4.5	12,246	4.7	12,077	4.0	11,772	3.7
Garment . . . . .	5,324	2.5	6,592	2.5	7,783	2.6	8,662	2.8
Pharmaceutical . . . . .	4,780	2.3	4,321	1.7	4,033	1.4	4,042	1.3
Chemical materials . . . . .	3,078	1.5	4,568	1.8	6,372	2.1	8,555	2.7
Metal production . . . . .	2,975	1.4	4,665	1.8	6,692	2.2	6,441	2.0
Others <sup>(2)</sup> . . . . .	11,835	5.6	14,856	5.7	22,106	7.4	16,294	5.2
Energy and resources . . . . .	28,365	13.5	39,292	15.2	44,820	15.0	50,415	16.0
Infrastructure and construction . . . . .	7,407	3.5	8,703	3.4	11,305	3.8	11,702	3.7
Trading . . . . .	30,332	14.4	32,081	12.4	33,966	11.4	31,922	10.1
Property development and investment . . . . .	14,890	7.1	17,971	7.0	20,089	6.7	22,516	7.1
Investment management . . . . .	9,865	4.7	15,024	5.8	16,604	5.6	16,841	5.4
Hospitality . . . . .	9,366	4.4	9,648	3.7	7,513	2.5	7,988	2.5
Others <sup>(3)</sup> . . . . .	15,153	7.2	14,063	5.5	22,436	7.5	28,349	9.0
<b>Total corporate loans . . . . .</b>	<b>210,674</b>	<b>100.0%</b>	<b>258,370</b>	<b>100.0%</b>	<b>298,622</b>	<b>100.0%</b>	<b>315,473</b>	<b>100.0%</b>

(1) Consists primarily of urban public transportation, postal service and software industry.

(2) Consists primarily of manufacturing of paper, handicrafts, plastics, petroleum, nonferrous metals, food and rubber.

(3) Consists primarily of education, public utility management, government agencies, financial services, food processing, water conservancy facilities and hospital.

The aggregate amount of loans to borrowers in (i) manufacturing, (ii) transportation and telecommunications, (iii) energy and resources, and (iv) trading, our four largest industries in terms of aggregate loan exposure, represented 72.3%, 73.9%, 74.6% and 73.1% of our total corporate loans at March 31, 2006 and December 31, 2005, 2004 and 2003, 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. Our branches generally originate loans to borrowers located in the same geographical areas. Our head office originates or manages loans to certain borrowers in all geographical regions of China. The following table sets forth, at the dates indicated, the distribution of our loan portfolio by geographical region.

	At December 31,						At March 31,	
	2003		2004		2005		2006	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
(in millions of RMB, except percentages)								
Eastern China . . . . .	101,614	33.0%	120,718	32.3%	145,287	30.8%	164,182	31.9%
Southern and Central China <sup>(1)</sup> . . . . .	97,435	31.7	132,642	35.5	192,617	40.8	208,121	40.4
Northern China . . . . .	66,755	21.7	73,816	19.7	82,656	17.5	86,341	16.8
Western China . . . . .	40,963	13.4	45,130	12.1	49,085	10.4	53,718	10.4
Others <sup>(2)</sup> . . . . .	713	0.2	1,711	0.4	2,540	0.5	2,527	0.5
<b>Total</b> . . . . .	<u>307,480</u>	<u>100.0%</u>	<u>374,017</u>	<u>100.0%</u>	<u>472,185</u>	<u>100.0%</u>	<u>514,889</u>	<u>100.0%</u>

(1) Includes loans originated by our head office.

(2) Represents loans originated by our Hong Kong branch.

### *Distribution of Corporate Loan Exposure by Size*

The following table sets forth, at March 31, 2006, the distribution of the outstanding amounts of our corporate loan exposures to borrowers by size.

	At March 31, 2006			
	Amount	% of Total	Number of Borrowers	Average Borrowing Amount <sup>(1)</sup>
(in millions of RMB, except percentages and number of borrowers)				
Up to RMB10 million . . . . .	15,325	4.9%	3,047	5
Over RMB10 million to RMB50 million . . . . .	74,783	23.7	2,735	27
Over RMB50 million to RMB100 million . . . . .	52,872	16.8	679	78
Over RMB100 million to RMB500 million . . . . .	121,502	38.5	538	226
Over RMB500 million to RMB1 billion . . . . .	28,463	9.0	40	712
Over RMB1 billion . . . . .	22,528	7.1	15	1,502
<b>Total corporate loans</b> . . . . .	<u>315,473</u>	<u>100.0%</u>	<u>7,054</u>	<u>45</u>

(1) Calculated by dividing the amount of loans in each category by number of borrowers in each category.



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### *Distribution of Loans by Collateral*

Loans secured by tangible assets and guarantees represented, in the aggregate, 79.4%, 78.8%, 78.7% and 80.2% of our total loan portfolio at March 31, 2006 and December 31, 2005, 2004 and 2003, respectively. If a loan is secured by more than one form of security interest, the allocation is based on the primary form of security interest. The following table sets forth, at the dates indicated, the distribution of our loan portfolio by the type of collateral.

	At December 31,						At March 31,	
	2003		2004		2005		2006	
	Amount <sup>(1)</sup>	% of Total	Amount <sup>(1)</sup>	% of Total	Amount <sup>(1)</sup>	% of Total	Amount <sup>(1)</sup>	% of Total
(in millions of RMB, except percentages)								
Loans secured by monetary assets <sup>(2)</sup> . .	82,561	26.8%	85,686	22.9%	135,449	28.7%	157,112	30.5%
Loans secured by tangible assets, other than monetary assets <sup>(3)</sup> . . . . .	50,398	16.4	75,734	20.2	99,435	21.1	108,734	21.1
Guaranteed loans . . . . .	113,682	37.0	133,114	35.6	137,192	29.0	142,957	27.8
Unsecured loans . . . . .	60,839	19.8	79,483	21.3	100,109	21.2	106,086	20.6
<b>Total loans to customers . . . . .</b>	<b>307,480</b>	<b>100.0%</b>	<b>374,017</b>	<b>100.0%</b>	<b>472,185</b>	<b>100.0%</b>	<b>514,889</b>	<b>100.0%</b>

(1) Represents the total amount of loans wholly or partly secured by collateral in each category.

(2) Consists primarily of loans secured by deposits, financial instruments (including discounted bills) and rights to future cash flows.

(3) Represents loans secured by tangible assets remaining in the borrower's possession, which consist primarily of loans secured by real property and motor vehicles.

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 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 tightened our credit policies on guaranteed loans. As a result, guaranteed loans, as a percentage of our loan portfolio, decreased to 27.8% at March 31, 2006 from 29.0% at December 31, 2005, 35.6% at December 31, 2004 and 37.0% at December 31, 2003.

### *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. At March 31, 2006 and December 31, 2005, 2004 and 2003, our largest aggregate loan exposure to a single borrower was 7.4%, 7.9%, 4.9% and 6.0%, respectively, of our regulatory capital. We were thus in compliance with this requirement.

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The following table sets forth, at March 31, 2006, the loans to our ten largest single borrowers, all of which were performing at that date.

At March 31, 2006				
	Industry	Amount	% of Total Loans	% of Regulatory Capital <sup>(1)</sup>
(in millions of RMB, except percentages)				
Borrower A .....	Transportation	3,000	0.6%	7.4%
Borrower B .....	Transportation	2,200	0.4	5.4
Borrower C .....	Transportation	2,074	0.4	5.1
Borrower D .....	Transportation	1,770	0.3	4.4
Borrower E .....	Energy and resources	1,556	0.3	3.9
Borrower F .....	Transportation	1,500	0.3	3.7
Borrower G .....	Transportation	1,318	0.3	3.3
Borrower H .....	Transportation	1,302	0.3	3.2
Borrower I .....	Telecommunications	1,200	0.2	3.0
Borrower J .....	Energy and resources	1,200	0.2	3.0
<b>Total</b> .....		<u>17,120</u>	<u>3.3%</u>	<u>42.4%</u>

(1) Represents loan amounts as a percentage of our regulatory capital, calculated in accordance with the requirements of the New Capital Adequacy Regulations and based on our financial statements prepared in accordance with PRC GAAP. For a calculation of our regulatory capital at March 31, 2006, see “Financial Information — Capital Resources — Capital Adequacy.”

Based on the information available to us, at March 31, 2006, the aggregate amount of loans to our ten largest borrowers (including group borrowers) totaled RMB22.4 billion, representing 4.4% of our total loans to customers. However, information on the group affiliations of individual corporate entities may not be available to us on a timely basis or at all. See “Risk Factors — Risks Relating to the Banking Industry in China — The effectiveness of our credit risk management is affected by the quality and scope of information available in the PRC” and “Risk Factors — Risks Relating to Our Business — If we are not effective in implementing enhanced risk management and internal control policies and procedures and introducing certain information technology systems to assist us with our risk management and internal controls, our business and prospects may be materially and adversely affected.” The applicable PRC banking guidelines recommend commercial banks to limit loans to any group borrower to no more than 15% of their regulatory capital. Based on the information available to us, at March 31, 2006 and December 31, 2005, 2004 and 2003, 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, at March 31, 2006, our loan products by remaining maturity.

	At March 31, 2006				
	Due 1 Year or Less	Due Over 1 Year up to 5 Years	Due More than 5 Years	Overdue <sup>(1)</sup>	Total
	(in millions of RMB)				
Corporate loans	230,180	51,639	23,158	10,496	315,473
Discounted bills	121,392	—	—	—	121,392
Retail loans	13,115	19,431	44,965	513	78,024
<b>Total loans to customers</b>	<b>364,687</b>	<b>71,070</b>	<b>68,123</b>	<b>11,009</b>	<b>514,889</b>

(1) Includes loans on which principal is overdue. Loans on which interest but not principal is overdue are not included. For loans that are repayable in installments, only the portion of the loan that is overdue is shown as overdue, and the installments that are not yet due are included under the corresponding remaining maturities.

At March 31, 2006, 70.8% of our total loans to customers were due in less than one year. Our loans with a term of less than one year consist primarily of discounted bills, working capital loans and trade finance for corporate customers. Our medium- to long-term corporate loans consist primarily of fixed asset loans. A majority of our retail loans had terms of more than five years, primarily because the largest component of our retail loans consisted of residential mortgage loans, which are generally long-term loans. We renew a portion of our corporate loans at maturity at the borrower's request and, when we do so, these loans are treated, and are subject to the same credit approval policies and procedures, as newly-granted loans. See "Risk Management — Credit Risk Management — Credit Management for Corporate Loans — Credit Origination and Analysis." At June 30, 2006, only a small percentage of our loans were renewed loans that were not actually settled upon renewal. Irrespective of whether actual settlement is involved, we classify the maturities of all renewal loans based on the new loan agreement.

### *Loan Interest Rate Profile*

Interest rates have historically been highly regulated in China and are gradually being liberalized. See "Regulation and Supervision — PRC Regulation and Supervision — Pricing of Products and Services." Interest rates on RMB-denominated loans are subject to resetting after a change in the applicable PBOC benchmark rates. Since January 1, 2004, under applicable PRC government regulations, banks have been allowed to negotiate the terms of interest rates on newly granted RMB-denominated loans with a maturity of longer than one year. We generally set floating interest rates on such loans. Only a small portion of loans with a maturity of longer than one year have fixed interest rates. We generally set fixed interest rates on loans with a maturity of one year or less. The interest rates on a small portion of such loans are reset on the next day or the first day of the month or quarter following the date of the change in the applicable benchmark interest rates.

Under applicable PBOC regulations, since March 17, 2005, banks have been allowed to negotiate interest rates on residential mortgage loans within the permitted range. We generally set floating interest rates on such loans and reset the interest rates on the first day of the month following the date of the change in the applicable benchmark interest rates. Since April 30, 2006, interest rates on our newly granted residential mortgage loans can be reset on the first day of the month, quarter or year following the date of benchmark interest rate change, at the option of our customers. On February 16, 2006, we started to offer residential mortgage loans with fixed interest rates.

**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." In September 2005, solely for internal risk management purposes, we introduced new sub-categories for our loans classified as normal and special mention.

***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 cash flows, financial condition and other, non-financial factors affecting the borrower's repayment ability; (ii) the borrower's repayment history; (iii) the borrower's willingness to repay; (iv) the net realizable value of any collateral and the prospect for support from any guarantor; and (v) the enforceability of our claims.

***Corporate Loans and Discounted Bills***

In applying the above criteria for corporate loans and discounted bills, we also take into account the length of time by which payments of principal or interest on a loan are overdue, the borrower's financial indicators, the borrower's business cycle, and other factors. The key factors for each loan classification are listed below. This is not intended to be a complete list of all factors taken into account in classifying our loans. See "Risk Management — Credit Risk Management — Credit Management for Corporate Loans — Post-disbursement Management — Loan Classification."

*Normal.* Loans are classified as normal only if the borrower can honor the terms of its loans and there is no reason to doubt its ability to repay principal and interest in full on a timely basis. Prior to September 2005, we classified overdue loans as normal only if they were overdue for 30 days or less and the borrower's financial condition was sound and net cash flows were positive, or the loans were fully secured by pledges of monetary assets, i.e., government bonds, deposits with our bank or other deposits, and the collateral was under our control. Under our current loan classification criteria which become effective in September 2005, a loan may be classified as normal only if the principal and interest payments are current, the borrower's financial condition is sound and its key performance indicators are in line with or above the industry average.

Since September 2005, solely for internal risk management purposes, we have introduced two sub-categories for loans classified as normal: "excellent" and "good."

We generally sub-classify normal loans as excellent only if:

- the borrower is in an industry which, in our view, has stable or positive prospects; the borrower's financial condition is sound and the borrower has sufficient funding sources for repayment of its loans; we are not aware of any factor that may adversely affect the borrower's ability to repay the principal and interest in full on a timely basis; and
- the borrower has no record of default with us or any other bank and the borrower is not involved in any legal proceedings that may affect its repayment ability.

We generally sub-classify normal loans as good if:

- the borrower's business operations are currently normal, but its repayment abilities may be adversely affected by uncertainties in the market or economic conditions;
- the borrower's financial condition is sound and its key performance indicators are in line with or above the industry average, notwithstanding any fluctuations in profitability the borrower may have experienced in the past; or
- the borrower has no record of default with us or any other bank.

*Special Mention.* Loans should be classified as special mention if the borrower is able to service its loans currently, although repayment may be adversely affected by specific factors, such as:

- the principal or interest payments are overdue for 90 days or less;
- there have been significant adverse changes to the borrower's business or corporate structure, or to the borrower's principal shareholders, affiliates, parent company, subsidiaries or management;
- the borrower's business volume, profitability or cash flows have decreased; the borrower's borrowings from banks have significantly increased, exceed normal liquidity needs for its business operations, or are higher than the industry average; any of the borrower's key financial indicators are lower than the industry average or have significantly decreased; or the borrower has incurred losses for two consecutive years; or
- there has been a significant decrease in the value of the collateral or we have lost control of the collateral, or there has been an adverse development in the guarantor's financial condition.

Since September 2005, solely for internal risk management purposes, we have introduced two sub-categories for loans classified as special mention: "general mention" and "particular mention."

We generally sub-classify special mention loans as general mention if the borrower is able to service its loans currently, although repayment may be adversely affected by specific factors, such as:

- the principal or interest payments are overdue for 30 days or less;
- the borrower's business volume, profitability or cash flows have decreased; the borrower's borrowings from banks have significantly increased, exceed normal liquidity needs for its business operations, or are higher than the industry average; or
- the borrower's business operations are currently normal, but its repayment ability may be adversely affected by changes in macroeconomic and market conditions or industry trends.

We generally sub-classify special mention loans as particular mention if, although the borrower is able to service its loans from its operating income, the borrower's financial condition continues to deteriorate and factors affecting its repayment ability have become evident, such as:

- the principal or interest payments are overdue for 30 to 90 days;
- there have been significant adverse changes to the borrower's business, or any of the borrower's key financial indicators have significantly decreased; or the borrower has incurred losses for two consecutive years; or

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- there have been significant adverse changes to the borrower's principal shareholders, affiliates, parent company, subsidiaries or management.

*Substandard.* Loans should be classified as substandard if the borrower's ability to service its loans is in question as it cannot rely entirely on normal business revenues to repay principal and interest, and losses may ensue even when collateral or guarantees are invoked. In general, we classify loans as substandard based on one or more of the following criteria, among others:

- the principal or interest payments are overdue for 91 to 180 days;
- the principal or interest payments are overdue for less than 90 days but the borrower's financial condition is poor, its net cash flows are negative or the borrower has incurred a loss; or
- the borrower's loans with other banks are overdue for more than 90 days.

*Doubtful.* Loans should be classified as doubtful if the borrower cannot repay principal and interest in full and significant losses will need to be recognized even when collateral or guarantees are invoked. In general, we classify loans as doubtful based on one or more of the following criteria, among others:

- the borrower's operations have been suspended or partially suspended, or the borrower is bankrupt, has been adjudicated to be bankrupt but failed to complete the bankruptcy procedures in accordance with the PRC State Council rules, or, as a result of having entered into bankruptcy proceedings, the borrower may be able to avoid full repayment of our loan; or
- the borrower's financial condition and key performance indicators continue to deteriorate.

*Loss.* Loans should be classified as loss if only a small portion or no principal and interest can be recovered after taking all possible measures and exhausting all legal remedies. In general, we classify loans as loss based on one or more of the following criteria, among others:

- the loan remains unpaid after the borrower's or the guarantor's bankruptcy proceedings;
- the loan remains unpaid after the distribution of a deceased borrower's estate;
- the loan remains unpaid after an insurance settlement for a significant natural disaster or casualty; or
- the borrower has terminated its corporate status or operations.

### *Retail Loans*

In applying the loan classification criteria to retail loans, we primarily consider the length of time by which payments of principal or interest are overdue. Prior to September 2005, we had considered some additional factors, including the condition of the collateral, in classifying certain retail loans. Since September 2005, we have primarily considered whether a loan is overdue and the length of time by which payments of principal or interest are overdue in classifying our retail loans, and have implemented more stringent classification criteria with respect to the length of time by which payments of principal or interest are overdue.

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The following table sets forth the length of time by which payments of principal or interest are overdue in each category of our five-category loan classification system for our major types of retail loans.

	<b>Residential Mortgage Loans</b>	<b>Automobile Loans</b>	<b>Credit Card Balances</b>
	(months)	(months)	(days)
Normal <sup>(1)</sup> . . . . .	0	0	0-29
Special mention <sup>(2)</sup> . . . . .	0-6	0-3	30-59
Substandard . . . . .	6-12	3-9	60-119
Doubtful . . . . .	12-24	9-24	120-149
Loss . . . . .	>24	>24	>149

(1) Includes two sub-categories: “excellent” and “good.” A retail loan must be current to be classified as “excellent.” To be classified as “good,” a residential mortgage loan or automobile loan must also be current; credit card balances can be classified as “good” only if they are overdue for less than 30 days.

(2) Includes two sub-categories: “general mention” and “particular mention.” Retail loans classified as “general mention” include residential mortgage loans and automobile loans that are overdue for one month or less. Retail loans classified as “particular mention” include residential mortgage loans that are overdue for one to six months and automobile loans that are overdue for one to three months. Credit card balances that are overdue between 30 to 59 days are classified as special mention without further subclassification.

### *Distribution of Loans by Loan Classification*

The following tables set forth, at 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” in Note 17(d) to the Accountants’ Report in Appendix I to this prospectus. See “Definitions and Conventions.” Under our five-category loan classification system, our non-performing loans are classified as substandard, doubtful or loss, as applicable.

	At December 31,						At March 31,	
	2003		2004		2005		2006	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
(in millions of RMB, except percentages)								
Normal . . . . .	292,065	95.0%	356,061	95.2%	445,504	94.3%	486,690	94.5%
Special mention . . . . .	5,737	1.8	7,182	1.9	14,514	3.1	15,939	3.1
Substandard . . . . .	2,680	0.9	4,023	1.1	4,924	1.0	3,934	0.8
Doubtful . . . . .	4,530	1.5	4,464	1.2	4,752	1.0	5,740	1.1
Loss . . . . .	2,468	0.8	2,287	0.6	2,491	0.6	2,586	0.5
<b>Total loans to customers . . . .</b>	<b>307,480</b>	<b>100.0%</b>	<b>374,017</b>	<b>100.0%</b>	<b>472,185</b>	<b>100.0%</b>	<b>514,889</b>	<b>100.0%</b>
<b>Non-performing loan ratio<sup>(1)</sup> . . . . .</b>		3.15%		2.88%		2.58%		2.38%

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



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	At December 31,						At March 31,	
	2003		2004		2005		2006	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
(in millions of RMB, except percentages)								
<b>Corporate loans<sup>(1)</sup></b>								
Normal	195,706	63.7%	241,023	64.5%	274,289	58.1%	290,274	56.4%
Special mention	5,576	1.8	6,986	1.9	12,626	2.7	13,465	2.6
Substandard	2,585	0.8	3,886	1.0	4,816	1.0	3,780	0.7
Doubtful	4,364	1.4	4,256	1.1	4,635	1.0	5,620	1.1
Loss	2,443	0.8	2,219	0.6	2,256	0.4	2,334	0.5
Subtotal	210,674	68.5	258,370	69.1	298,622	63.2	315,473	61.3
Non-performing loan ratio <sup>(2)</sup>		4.46		4.01		3.92		3.72
<b>Discounted bills<sup>(1)</sup></b>								
Normal	62,214	20.2	60,869	16.3	99,515	21.1	121,331	23.6
Special mention	10	—	17	—	12	—	61	—
Substandard	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—
Subtotal	62,224	20.2	60,886	16.3	99,527	21.1	121,392	23.6
Non-performing loan ratio <sup>(2)</sup>		0.00		0.00		0.00		0.00
<b>Retail loans</b>								
Normal	34,145	11.1	54,169	14.5	71,700	15.2	75,085	14.6
Special mention	151	0.1	179	—	1,876	0.4	2,413	0.5
Substandard	95	—	137	—	108	—	154	—
Doubtful	166	0.1	208	0.1	117	—	120	—
Loss	25	—	68	—	235	0.1	252	—
Subtotal	34,582	11.3	54,761	14.6	74,036	15.7	78,024	15.1
Non-performing loan ratio <sup>(2)</sup>		0.83		0.75		0.62		0.67
<b>Total loans to customers</b>	<b>307,480</b>	<b>100.0%</b>	<b>374,017</b>	<b>100.0%</b>	<b>472,185</b>	<b>100.0%</b>	<b>514,889</b>	<b>100.0%</b>

(1) Corporate acceptance bills that are classified as non-performing are treated as corporate loans and included in the respective categories of corporate loans for recovery management purposes. The balance of non-performing corporate acceptance bills included in corporate loans amounted to RMB130 million, RMB132 million, RMB123 million and RMB23 million at March 31, 2006 and December 31, 2005, 2004 and 2003, respectively.

(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 2.38%, 2.58%, 2.88% and 3.15% at March 31, 2006 and December 31, 2005, 2004 and 2003, respectively. The decrease in our non-performing loan ratio from December 31, 2003 to March 31, 2006 reflected an overall improvement in the asset quality of our loan portfolio, primarily due to (i) an increase, as a percentage of our total loan portfolio, in the types of loans that are assigned relatively low credit risk weightings for capital adequacy purposes, including bank acceptance discounted bills and residential mortgage loans, and loans that bear a relatively low credit risk, such as loans to targeted industries as specified in our credit policy guidelines, and (ii) our efforts to strengthen our credit risk management policies and procedures, including the use of quantitative risk assessment techniques, strengthened credit approval function and procedures, more proactive post-disbursement loan management and an increased focus on efforts to recover on non-performing loans. This improved trend in our non-performing loan ratio was also positively affected by the overall growth of our loan portfolio. As a percentage of our total loan portfolio, the decrease in loans classified as normal and the increase in loans classified as special

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mention from December 31, 2003 to March 31, 2006 resulted primarily from our introduction in 2005 of more stringent criteria for classifying loans into these two categories and our adoption of a more conservative approach to loan classification, particularly with respect to our exposure to the industries affected by the PRC government's macroeconomic control measures.

### *Changes to the Asset Quality of Our Loan Portfolio*

The following table sets forth, at the dates indicated, the changes in the outstanding amounts of our non-performing loans.

	<u>Amount</u>	<u>NPL Ratio</u>
	<u>(in millions of RMB, except percentages)</u>	
<b>At December 31, 2002</b> .....	<u>12,398</u>	5.99%
Downgrades <sup>(1)</sup> .....	334	
Upgrades .....	(845)	
Recoveries .....	(1,701)	
Transfers out <sup>(2)</sup> .....	(41)	
Write-offs .....	(467)	
<b>At December 31, 2003</b> .....	<u>9,678</u>	3.15%
Downgrades <sup>(1)</sup> .....	2,430	
Upgrades .....	(202)	
Recoveries .....	(829)	
Write-offs .....	(303)	
<b>At December 31, 2004</b> .....	<u>10,774</u>	2.88%
Downgrades <sup>(1)</sup> .....	4,042	
Upgrades .....	(60)	
Recoveries .....	(1,753)	
Transfers out <sup>(2)</sup> .....	(2)	
Exchange differences .....	(89)	
Write-offs .....	(745)	
<b>At December 31, 2005</b> .....	<u>12,167</u>	2.58%
Downgrades <sup>(1)</sup> .....	678	
Upgrades .....	—	
Recoveries .....	(565)	
Exchange differences .....	<u>(20)</u>	
<b>At March 31, 2006</b> .....	<u><u>12,260</u></u>	2.38%

(1) Represents downgrades of loans classified as normal or special mention at the end of last period and loans newly made in the current period to non-performing classifications.

(2) Consists of the transfer of non-performing loan assets to repossessed assets.

At March 31, 2006, the balance of our non-performing loans was RMB12.3 billion, a slight increase from December 31, 2005, which in turn increased from December 31, 2004 and 2003. However, as noted above, our non-performing loan ratio at those dates continued to decrease from December 31, 2003 to March 31, 2006. From December 31, 2002 to December 31, 2003, both the balance of our non-performing loans and our non-performing loan ratio decreased.

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The slight increase in the balance of our non-performing loans from December 31, 2005 to March 31, 2006 was primarily due to downgrades of loans classified as normal or special mention to non-performing classifications, which were substantially offset by recoveries.

The increase in the balance of our non-performing loans from December 31, 2003 to December 31, 2005 was primarily due to downgrades of loans classified as normal or special mention to non-performing classifications, partially offset by recoveries and write-offs. The increase in downgrades primarily reflected a combination of the following factors: (i) the overall growth of our loan portfolio in 2002-2004, (ii) the impact of the PRC government's macroeconomic control measures on certain borrowers, and (iii) our adoption of a more conservative approach to loan classification. Recoveries increased to RMB1,753 million in 2005 compared to RMB829 million in 2004, primarily attributable to our increased efforts to recover on non-performing loans. The increase in write-offs to RMB745 million in 2005 compared to RMB303 million in 2004 primarily reflected the effect of the Rules on Write-offs introduced in May 2005, which resulted in an increase in our non-performing loans qualifying for write-offs. The decrease in the balance of our non-performing loans from December 31, 2002 to December 31, 2003 was primarily due to recoveries and upgrades.

### *Distribution of Non-performing Loans by Product Type*

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

	At December 31,									At March 31,		
	2003			2004			2005			2006		
	Amount	% of Total	NPL Ratio <sup>(1)</sup>	Amount	% of Total	NPL Ratio <sup>(1)</sup>	Amount	% of Total	NPL Ratio <sup>(1)</sup>	Amount	% of Total	NPL Ratio <sup>(1)</sup>
(in millions of RMB, except percentages)												
<b>Corporate loans</b>												
Working capital loans	8,226	85.0%	4.36%	9,194	85.3%	4.10%	10,554	86.7%	4.35%	10,620	86.6%	4.18%
Fixed asset loans	834	8.6	7.47	681	6.3	3.32	611	5.0	1.58	567	4.6	1.22
Trade finance	139	1.4	2.01	135	1.3	1.40	101	0.8	0.73	117	1.0	1.05
Others <sup>(2)</sup>	193	2.0	4.69	351	3.3	8.66	441	3.7	12.49	430	3.5	10.57
Subtotal	9,392	97.0	4.46	10,361	96.2	4.01	11,707	96.2	3.92	11,734	95.7	3.72
<b>Discounted bills<sup>(3)</sup></b>	—	—	0.00	—	—	0.00	—	—	0.00	—	—	0.00
<b>Retail loans</b>												
Residential mortgage loans	254	2.6	0.95	302	2.8	0.65	320	2.6	0.50	337	2.7	0.49
Credit card balances	5	0.1	0.56	47	0.4	2.18	78	0.7	1.71	95	0.8	1.92
Automobile loans	22	0.2	0.71	51	0.5	2.43	45	0.4	3.93	67	0.6	6.49
Others <sup>(4)</sup>	5	0.1	0.13	13	0.1	0.32	17	0.1	0.46	27	0.2	0.69
Subtotal	286	3.0	0.83	413	3.8	0.75	460	3.8	0.62	526	4.3	0.67
<b>Total non-performing loans</b>	<u>9,678</u>	<u>100.0%</u>	<u>3.15%</u>	<u>10,774</u>	<u>100.0%</u>	<u>2.88%</u>	<u>12,167</u>	<u>100.0%</u>	<u>2.58%</u>	<u>12,260</u>	<u>100.0%</u>	<u>2.38%</u>

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

(2) Consists primarily of factoring and corporate mortgage loans. This category also includes non-performing corporate acceptance bills of RMB130 million, RMB132 million, RMB123 million and RMB23 million, representing non-performing loan ratios of corporate acceptance bills of 0.83%, 1.20%, 1.61% and 0.18% at March 31, 2006 and December 31, 2005, 2004 and 2003, respectively.

(3) Excludes non-performing corporate acceptance discounted bills referred to in the above note (2). Once a corporate acceptance discounted bill is classified as non-performing, we treat it as a corporate loan and include it in the balance of non-performing corporate loans of the respective category for recovery management purposes.

(4) Consists primarily of retail loans secured by monetary assets, home improvement loans, education loans and general consumption loans.

The overall decrease in the non-performing loan ratio of our corporate loan portfolio, from 4.46% at December 31, 2003 to 3.72% at March 31, 2006, was primarily attributable to our strengthened risk management, including increased efforts to reduce our exposure to industries

adversely affected by the PRC government's macroeconomic control measures, and our continued efforts to recover on and our increased ability to write off non-performing loans made in earlier years. These efforts were primarily reflected in the steady improvement in the non-performing loan ratio of our fixed asset loans. The increase in the non-performing loan ratio of working capital loans at December 31, 2005 was a combined result of the PRC government's macroeconomic control measures and our adoption of a more conservative approach to loan classification.

We have generally experienced lower non-performing loan ratios on our retail loans than on our corporate loans. The overall decrease in the non-performing loan ratio of our retail loan portfolio to 0.62% at December 31, 2005 from 0.75% at December 31, 2004 and 0.83% at December 31, 2003, was primarily due to the decrease in the non-performing loan ratio of our residential mortgage loans, which reflected our strengthened credit approval policies, especially with respect to assessing borrowers' ability to repay loans. This improved trend in the non-performing loan ratio of our residential mortgage loans was also positively affected by the growth of our residential mortgage loan portfolio.

At March 31, 2006, the non-performing loan ratio of our retail loan portfolio was 0.67%, an increase from 0.62% at December 31, 2005. This increase was due entirely to increases in non-performing credit card balances, automobile loans and other retail loans, as the non-performing loan ratio of our residential mortgage loans showed a slight decrease.

The non-performing loan ratio of our credit card balances was 1.92%, 1.71%, 2.18% and 0.56% at March 31, 2006 and December 31, 2005, 2004 and 2003, respectively. This was a new business for our bank in 2003, as reflected by the relatively small balance outstanding and the low non-performing loan ratio at December 31, 2003. As we expanded our credit card business, the non-performing loan ratio increased at December 31, 2004, although well within our risk tolerance level. The decrease in the non-performing loan ratio from December 31, 2004 to December 31, 2005 was primarily due to an increase in our credit card balances and our strengthened credit approval procedures. The non-performing loan ratio of our automobile loans increased to 6.49% at March 31, 2006 from 3.93% at December 31, 2005, which in turn increased from 2.43% at December 31, 2004 and 0.71% at December 31, 2003, primarily due to a combination of (i) an increase in default rates resulting primarily from an overall decrease in auto prices, (ii) the difficulties in realizing the value of collateral securing these loans, and (iii) a decrease in our automobile loan portfolio as a result of an unfavorable credit environment and our tightened credit policies.

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### *Distribution of Corporate Non-performing Loans by Industry*

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

	At December 31,									At March 31,		
	2003			2004			2005			2006		
	Amount	% of Total	NPL Ratio <sup>(1)</sup>	Amount	% of Total	NPL Ratio <sup>(1)</sup>	Amount	% of Total	NPL Ratio <sup>(1)</sup>	Amount	% of Total	NPL Ratio <sup>(1)</sup>
(in millions of RMB, except percentages)												
Transportation and telecommunications .....	195	2.1%	0.41%	464	4.5%	0.77%	669	5.7%	1.01%	647	5.5%	0.90%
Transportation .....	158	1.7	0.73	326	3.2	1.50	372	3.2	1.65	356	3.0	1.82
Road development .....	18	0.2	0.14	19	0.2	0.09	—	—	0.00	—	—	0.00
Telecommunications .....	—	—	0.00	63	0.6	0.74	125	1.1	1.99	123	1.1	2.14
Others <sup>(2)</sup> .....	19	0.2	0.45	56	0.5	0.76	172	1.4	3.13	168	1.4	3.11
Manufacturing .....	1,170	12.5	2.48	1,697	16.4	2.75	3,351	28.7	4.42	3,374	28.8	4.57
Mechanical industry .....	212	2.3	2.19	195	1.9	1.36	379	3.2	2.27	386	3.3	2.14
Electronics and computers .....	212	2.3	2.23	358	3.5	2.92	745	6.4	6.17	692	5.9	5.88
Garment .....	221	2.4	4.15	187	1.8	2.84	209	1.8	2.69	199	1.7	2.30
Pharmaceutical .....	21	0.2	0.44	253	2.4	5.86	1,084	9.3	26.88	1,075	9.2	26.60
Chemical materials .....	170	1.8	5.52	156	1.5	3.42	104	0.9	1.63	138	1.2	1.61
Metal production .....	31	0.3	1.04	41	0.4	0.88	25	0.2	0.37	25	0.2	0.39
Others <sup>(3)</sup> .....	303	3.2	2.56	507	4.9	3.41	805	6.9	3.64	859	7.3	5.27
Energy and resources .....	290	3.1	1.02	335	3.2	0.85	351	3.0	0.78	343	2.9	0.68
Infrastructure and construction .....	154	1.6	2.08	154	1.5	1.77	129	1.1	1.14	128	1.1	1.09
Trading .....	1,936	20.6	6.38	2,136	20.6	6.66	2,345	20.0	6.90	2,525	21.5	7.91
Property development and investment .....	3,565	38.0	23.94	3,509	33.9	19.53	2,830	24.2	14.09	2,555	21.8	11.35
Investment management .....	292	3.1	2.96	421	4.0	2.80	409	3.5	2.46	398	3.4	2.36
Hospitality .....	575	6.1	6.14	516	5.0	5.35	659	5.6	8.77	729	6.2	9.13
Others <sup>(4)</sup> .....	1,215	12.9	8.02	1,129	10.9	8.03	964	8.2	4.30	1,035	8.8	3.65
<b>Total corporate non-performing loans .....</b>	<b>9,392</b>	<b>100.0%</b>	<b>4.46%</b>	<b>10,361</b>	<b>100.0%</b>	<b>4.01%</b>	<b>11,707</b>	<b>100.0%</b>	<b>3.92%</b>	<b>11,734</b>	<b>100.0%</b>	<b>3.72%</b>

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

(2) Consists primarily of urban public transportation, postal service and software industry.

(3) Consists primarily of manufacturing of paper, handicrafts, plastics, petroleum, nonferrous metals, food and rubber.

(4) Consists primarily of education, public utility management, government agencies, financial services, food processing, water conservancy facilities and hospital.

The non-performing loan ratio of our loans to the transportation and telecommunications industry at March 31, 2006 remained at the lower end of the range in our total corporate loan portfolio.

The increase in the non-performing loan ratio of our loans to the manufacturing industry from December 31, 2003 to March 31, 2006 primarily reflected the impact of the PRC government's macroeconomic control measures, particularly on certain borrowers in the pharmaceutical industry which were highly leveraged and whose sources of funding were adversely affected by these measures, and also the impact of generally adverse market conditions in the electronics and computers industry. We have reduced our exposure to the pharmaceutical industry since December 31, 2003 and to the electronics and computers industry since December 31, 2004. See “— Loans to Customers — Distribution of Corporate Loans by Industry.”

The non-performing loan ratio of our loans to the property development and investment industry decreased from December 31, 2003 to March 31, 2006, primarily reflecting our increased efforts to foreclose and recover on these non-performing loans.

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The non-performing loan ratio of our loans to the trading sector increased from December 31, 2003 to March 31, 2006, primarily reflecting the adverse impact of the changed regulatory and market environment and increased competition on borrowers in this sector.

### *Distribution of Non-performing Loans by Geographical Region*

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

	At December 31,									At March 31,		
	2003			2004			2005			2006		
	Amount	% of Total	NPL Ratio <sup>(1)</sup>	Amount	% of Total	NPL Ratio <sup>(1)</sup>	Amount	% of Total	NPL Ratio <sup>(1)</sup>	Amount	% of Total	NPL Ratio <sup>(1)</sup>
(in millions of RMB, except percentages)												
Eastern China . . . . .	615	6.3%	0.61%	637	5.9%	0.53%	852	7.0%	0.59%	991	8.1%	0.60%
Southern and Central China <sup>(2)</sup> . . . . .	7,821	80.8	8.03	7,938	73.7	5.98	7,308	60.1	3.79	7,174	58.5	3.45
Northern China . . . . .	713	7.4	1.07	752	7.0	1.02	1,049	8.6	1.27	1,095	8.9	1.27
Western China . . . . .	529	5.5	1.29	1,336	12.4	2.96	2,850	23.4	5.81	2,892	23.6	5.38
Others <sup>(3)</sup> . . . . .	—	—	0.00	111	1.0	6.49	108	0.9	4.25	108	0.9	4.27
<b>Total</b> . . . . .	<u>9,678</u>	<u>100.0%</u>	<u>3.15%</u>	<u>10,774</u>	<u>100.0%</u>	<u>2.88%</u>	<u>12,167</u>	<u>100.0%</u>	<u>2.58%</u>	<u>12,260</u>	<u>100.0%</u>	<u>2.38%</u>

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

(2) Includes our head office.

(3) Represents our Hong Kong branch.

At March 31, 2006, our non-performing loan ratio for the Eastern China region was the lowest among all geographical regions, and our non-performing loan ratio for the Western China region was the highest among all geographical regions. The non-performing loan ratio of our loans in Western China increased to 5.81% at December 31, 2005 from 2.96% at December 31, 2004, which in turn increased from 1.29% at December 31, 2003. This increase reflected the impact of the PRC government's macroeconomic control measures, particularly on smaller or privately-owned corporate borrowers in this economically less developed region.

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### *Distribution of Non-performing Loans by Collateral*

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

	At December 31,									At March 31,		
	2003			2004			2005			2006		
	Amount	% of Total	NPL Ratio <sup>(1)</sup>	Amount	% of Total	NPL Ratio <sup>(1)</sup>	Amount	% of Total	NPL Ratio <sup>(1)</sup>	Amount	% of Total	NPL Ratio <sup>(1)</sup>
(in millions of RMB, except percentages)												
Loans secured by monetary assets . . . .	384	4.0%	0.47%	465	4.3%	0.54%	993	8.2%	0.73%	898	7.3%	0.57%
Loans secured by tangible assets, other than monetary assets . . . . .	5,709	59.0	11.33	5,478	50.8	7.23	5,376	44.2	5.41	5,246	42.8	4.82
Guaranteed loans . . . . .	3,287	34.0	2.89	4,223	39.2	3.17	5,275	43.3	3.84	5,580	45.5	3.90
Unsecured loans . . . . .	298	3.0	0.49	608	5.7	0.76	523	4.3	0.52	536	4.4	0.51
<b>Total non-performing loans . . . . .</b>	<b>9,678</b>	<b>100.0%</b>	<b>3.15%</b>	<b>10,774</b>	<b>100.0%</b>	<b>2.88%</b>	<b>12,167</b>	<b>100.0%</b>	<b>2.58%</b>	<b>12,260</b>	<b>100.0%</b>	<b>2.38%</b>

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

The overall decrease in the non-performing loan ratio of loans secured by tangible assets from December 31, 2003 to March 31, 2006 was primarily attributable to the foreclosure of collateral and increased recoveries on certain non-performing loans.

The overall increase in the non-performing loan ratio of loans secured by guarantees from December 31, 2003 to March 31, 2006 was primarily attributable to a combination of (i) the impact of the PRC government's macroeconomic control measures on certain borrowers and, likewise, guarantors, (ii) the uncertainties relating to the recoverability of these loans compared to other categories of secured loans, and (iii) the lower rate of growth of loans secured by guarantees than loans secured by other collateral.



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### *Ten Largest Non-performing Borrowers*

The following table sets forth, at March 31, 2006, our borrowers with the ten largest non-performing loan balances outstanding.

At March 31, 2006					
	Industry	Amount	Classification	% of Total Non-Performing Loans	% of Total Regulatory Capital
(in millions of RMB, except percentage)					
Borrower A .....	Others	280	doubtful	2.3%	0.7%
Borrower B .....	Property development and investment	270	doubtful	2.2	0.7
Borrower C .....	Property development and investment	250	substandard	2.0	0.6
Borrower D .....	Property development and investment	220	doubtful	1.8	0.5
Borrower E .....	Trading	219	doubtful	1.8	0.5
Borrower F .....	Hospitality	195	loss	1.6	0.5
Borrower G .....	Property development and investment	193	doubtful	1.6	0.5
Borrower H .....	Manufacturing	180	doubtful	1.5	0.4
Borrower I .....	Manufacturing	150	substandard	1.2	0.4
Borrower J .....	Manufacturing	148	doubtful	1.2	0.4
Subtotal .....		2,105		17.2	5.2
<b>Total non-performing loans .....</b>		12,260		100.0%	30.4%

### *Loan Aging Schedule*

The following table sets forth, at the dates indicated, our loan aging schedule for our loans to customers.

	At December 31,						At March 31,	
	2003		2004		2005		2006	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
(in millions of RMB, except percentages)								
Current loans .....	296,125	96.3%	361,792	96.7%	458,810	97.2%	500,215	97.2%
Loans past due for								
1 to 90 days <sup>(1)</sup> .....	2,367	0.8	2,624	0.7	2,614	0.5	4,008	0.7
91 days to 180 days <sup>(1)</sup> .....	395	0.1	624	0.2	1,360	0.3	900	0.2
181 days or more <sup>(1)</sup> .....	8,593	2.8	8,977	2.4	9,401	2.0	9,766	1.9
Subtotal <sup>(1)</sup> .....	11,355	3.7	12,225	3.3	13,375	2.8	14,674	2.8
Loans overdue 91 days or more .....	8,988	2.9	9,601	2.6	10,761	2.3	10,666	2.1
<b>Total loans to customers .....</b>	<u>307,480</u>	<u>100.0%</u>	<u>374,017</u>	<u>100.0%</u>	<u>472,185</u>	<u>100.0%</u>	<u>514,889</u>	<u>100.0%</u>

(1) Represents the principal amount of the loans on which principal or interest is overdue. For loans that are repayable in installments, if any portion of the loan is overdue, the total amount of that loan is classified as overdue.

### **Allowance for Impairment Losses on Loans to Customers**

We 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

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“Financial Information — Critical Accounting Estimates and Judgments — Impairment Losses on Loans and Advances.”

Our loans are reported net of the allowance for impairment losses on our consolidated balance sheet. We perform individual assessments to determine the allowance for impairment losses against individually significant loans, which consist of corporate loans and discounted bills, if there is objective 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, including, among other things, the recoverable value of the collateral.

Individually significant loans for which no evidence of impairment has been individually identified consist of performing loans (loans classified as normal and special mention). These performing loans are treated as a single category and assessed collectively for the purpose of determining the allowance for impairment losses. Homogeneous groups of loans that are not considered individually significant represent retail loans. These loans are also collectively assessed for the purpose of determining the allowance for impairment losses. The allowance for impairment losses of the collectively assessed loans is determined primarily based on our historical loss experience in similar portfolios and on current economic conditions.

For a description of our methodologies in calculating the estimated recoverable amount of loans, see “Financial Information — Critical Accounting Estimates and Judgments — Impairment Losses on Loans and Allowances” and Notes 2(j) and 41(a) to the Accountants’ Report in Appendix I to this prospectus.

### *Distribution of Allowance for Impairment Losses by Loan Classification*

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

	At December 31,									At March 31,		
	2003			2004			2005			2006		
	Amount	% of Total	Allowance to Loans <sup>(1)</sup>	Amount	% of Total	Allowance to Loans <sup>(1)</sup>	Amount	% of Total	Allowance to Loans <sup>(1)</sup>	Amount	% of Total	Allowance to Loans <sup>(1)</sup>
(in millions of RMB, except percentages)												
Performing <sup>(2)</sup> .....	3,930	46.1%	1.3%	5,180	47.5%	1.4%	6,135	45.4%	1.3%	6,830	47.8%	1.4%
Substandard .....	446	5.2	16.6	909	8.3	22.6	1,929	14.3	39.2	1,377	9.6	35.0
Doubtful .....	2,044	24.0	45.1	2,646	24.2	59.3	2,958	21.9	62.2	3,505	24.5	61.1
Loss .....	2,100	24.7	85.1	2,185	20.0	95.5	2,488	18.4	99.9	2,585	18.1	100.0
<b>Total allowance</b> ....	<u>8,520</u>	<u>100.0%</u>	<u>2.8%</u>	<u>10,920</u>	<u>100.0%</u>	<u>2.9%</u>	<u>13,510</u>	<u>100.0%</u>	<u>2.9%</u>	<u>14,297</u>	<u>100.0%</u>	<u>2.8%</u>

(1) 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.

(2) Consists of loans classified as normal and special mention.

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

	At December 31,									At March 31,		
	2003			2004			2005			2006		
	Amount	% of Total	Allowance to Loans <sup>(1)</sup>	Amount	% of Total	Allowance to Loans <sup>(1)</sup>	Amount	% of Total	Allowance to Loans <sup>(1)</sup>	Amount	% of Total	Allowance to Loans <sup>(1)</sup>
(in millions of RMB, except percentages)												
<b>Corporate loans<sup>(2)</sup></b>												
Performing <sup>(3)</sup>	3,196	37.5%	1.6%	4,159	38.1%	1.7%	4,783	35.4%	1.7%	5,268	36.8%	1.7%
Substandard	437	5.2	16.9	884	8.1	22.7	1,899	14.1	39.4	1,337	9.4	35.4
Doubtful	2,004	23.5	45.9	2,578	23.6	60.6	2,905	21.5	62.7	3,453	24.2	61.4
Loss	2,079	24.4	85.1	2,118	19.4	95.4	2,256	16.7	100.0	2,333	16.3	100.0
Subtotal	7,716	90.6	3.7	9,739	89.2	3.8	11,843	87.7	4.0	12,391	86.7	3.9
<b>Discounted bills<sup>(2)</sup></b>												
Performing <sup>(3)</sup>	198	2.3	0.3	128	1.2	0.2	183	1.3	0.2	271	1.9	0.2
Substandard	—	—	—	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—	—	—	—	—
Subtotal	198	2.3	0.3	128	1.2	0.2	183	1.3	0.2	271	1.9	0.2
<b>Retail loans</b>												
Performing <sup>(3)</sup>	536	6.3	1.6	893	8.2	1.6	1,169	8.7	1.6	1,291	9.0	1.7
Substandard	9	0.1	9.5	25	0.2	18.2	30	0.2	27.8	40	0.3	26.0
Doubtful	40	0.5	24.1	68	0.6	32.7	53	0.4	45.3	52	0.3	43.3
Loss	21	0.2	84.0	67	0.6	98.5	232	1.7	98.7	252	1.8	100.0
Subtotal	606	7.1	1.8	1,053	9.6	1.9	1,484	11.0	2.0	1,635	11.4	2.1
<b>Total allowance</b>	<b>8,520</b>	<b>100.0%</b>	<b>2.8%</b>	<b>10,920</b>	<b>100.0%</b>	<b>2.9%</b>	<b>13,510</b>	<b>100.0%</b>	<b>2.9%</b>	<b>14,297</b>	<b>100.0%</b>	<b>2.8%</b>

(1) 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.

(2) The allowance for impairment losses of non-performing corporate acceptance bills, which are treated as non-performing corporate loans for recovery management purposes, is included in the allowance for impairment losses of the respective categories of corporate loans. At March 31, 2006 and December 31, 2005, 2004 and 2003, the allowance for impairment losses on these bills amounted to RMB89 million, RMB94 million, RMB70 million and RMB11 million, respectively.

(3) Consists of loans classified as normal and special mention.

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### *Changes to the Allowance for Impairment Losses*

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

	<b>At and for the Year Ended December 31 and Three Months Ended March 31,</b>
	<b>(in millions of RMB)</b>
<b>At December 31, 2002</b>	<b>6,820</b>
Charge for the year <sup>(1)</sup>	2,539
Releases for the year <sup>(2)</sup>	(400)
Unwinding of discount <sup>(3)</sup>	(95)
Transfers out <sup>(4)</sup>	(13)
Write-offs	(468)
Recoveries of loans previously written off	135
Exchange differences	2
<b>At December 31, 2003</b>	<b>8,520</b>
Charge for the year <sup>(1)</sup>	3,098
Releases for the year <sup>(2)</sup>	(334)
Unwinding of discount <sup>(3)</sup>	(108)
Transfers out <sup>(4)</sup>	—
Write-offs	(303)
Recoveries of loans previously written off	46
Exchange differences	1
<b>At December 31, 2004</b>	<b>10,920</b>
Charge for the year <sup>(1)</sup>	4,031
Releases for the year <sup>(2)</sup>	(456)
Unwinding of discount <sup>(3)</sup>	(244)
Transfers out <sup>(4)</sup>	(2)
Write-offs	(745)
Recoveries of loans previously written off	84
Exchange differences	(78)
<b>At December 31, 2005</b>	<b>13,510</b>
Charge for the three months ended March 31, 2006 <sup>(1)</sup>	1,076
Releases for the three months ended March 31, 2006 <sup>(2)</sup>	(368)
Unwinding of discount <sup>(3)</sup>	(57)
Transfers out <sup>(4)</sup>	—
Write-offs	—
Recoveries of loans previously written off	149
Exchange differences	(13)
<b>At March 31, 2006</b>	<b>14,297</b>

(1) Represents gross provisions for impairment losses, or additions to the loan loss allowance.

(2) Represents write-backs, or releases from the loan loss allowance.

(3) Represents the interest income accrued on impaired loans as a result of subsequent increases in their present values due to the passage of time.

(4) Represents transfers out of loan loss allowance resulting from the transfer of loan assets to repossessed assets.

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## ASSETS AND LIABILITIES

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*March 31, 2006 Compared to December 31, 2005.* Our allowance for impairment losses at March 31, 2006 was RMB14.3 billion, an increase of 5.8% from RMB13.5 billion at December 31, 2005, primarily attributable to provisions for impairment losses made in the three months ended March 31, 2006, partially offset by releases from the allowance in this period.

We made gross provisions for impairment losses in an aggregate amount of RMB1,076 million for the three months ended March 31, 2006, primarily due to a combination of (i) the overall growth of our total loan portfolio, and (ii) downgrades of certain corporate loans from higher loan classifications to lower loan classifications within our non-performing loan portfolio, and, to a lesser extent, an increase in the allowance for our credit card balances.

Releases from the allowance amounted to RMB368 million for the three months ended March 31, 2006, primarily attributable to recoveries on our corporate non-performing loans.

Recoveries on loans previously written off amounted to RMB149 million for the three months ended March 31, 2006, primarily reflecting our continued collection efforts.

Primarily as a result of the above factors, the coverage ratio of our total allowance for impairment losses to total non-performing loans increased to 116.6% at March 31, 2006 from 111.0% at December 31, 2005.

*2005 Compared to 2004.* Our allowance for impairment losses at December 31, 2005 was RMB13.5 billion, an increase of 23.7% from RMB10.9 billion at December 31, 2004, primarily due to an increase in provisions for impairment losses made in the year, partially offset by an increase in reduction of the allowance resulting from loan write-offs and releases.

Provisions for impairment losses increased by 30.1% to RMB4.0 billion in 2005 compared to RMB3.1 billion in 2004, primarily due to a combination of (i) increased downgrades of loans classified as normal or special mention to non-performing classifications and from higher loan classifications to lower loan classifications within our non-performing loan portfolio, (ii) a decrease in the estimated recoverable amount on non-performing corporate loans, primarily attributable to non-performing loans that have been outstanding for considerable periods of time, and (iii) the overall growth of our total loan portfolio. The increase in downgrades resulted primarily from the impact of the PRC government's macroeconomic control measures and our adoption of more stringent loan classification criteria and a more conservative approach to provisioning.

Write-offs of the allowance resulting from loan write-offs increased by 145.9% to RMB745 million in 2005 from RMB303 million in 2004, primarily due to the Rules on Write-offs introduced in May 2005 which resulted in an increase in our non-performing loans qualifying for write-offs.

Releases from the allowance increased by 36.5% to RMB456 million in 2005 compared to RMB334 million in 2004, primarily due to an increase in the recoveries on non-performing loans.

Primarily as a result of the above factors, the coverage ratio of our total allowance for impairment losses to total non-performing loans increased to 111.0% at December 31, 2005 from 101.4% at December 31, 2004.

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## ASSETS AND LIABILITIES

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*2004 Compared to 2003.* Our allowance for impairment losses at December 31, 2004 was RMB10.9 billion, an increase of 28.2% from RMB8.5 billion at December 31, 2003, primarily due to an increase in provisions for impairment losses made in the year and, to a lesser extent, a decrease in write-offs and releases for the year.

Provisions for impairment losses increased by 22.0% to RMB3.1 billion in 2004 compared to RMB2.5 billion in 2003, primarily due to a combination of (i) the overall growth of our total loan portfolio, (ii) a decrease in the estimated recoverable amount on non-performing corporate loans, (iii) increased downgrades of loans classified as normal and special mention to non-performing classifications, and (iv) our adoption of a more conservative approach to provisioning, reflecting our evaluation of the macroeconomic environment.

Releases from the allowance decreased by 16.5% to RMB334 million in 2004 compared to RMB400 million in 2003, primarily reflecting the effect of the PRC government's macroeconomic control measures in 2004. The relatively larger releases from the allowance in 2003 reflected a relatively larger amount of recoveries and, to a lesser extent, upgrades of non-performing loans to performing classifications. The recoveries in 2003 resulted primarily from our increased focus on collection efforts and a generally favorable economic environment. The upgrades primarily reflected a change in our evaluation of the collectibility of certain corporate loans.

Write-offs of the allowance resulting from loan write-offs decreased to RMB303 million in 2004 from RMB468 million in 2003, consistent with the decrease in write-offs of our non-performing loans in 2004 compared to 2003.

In 2004, recoveries of loans previously written off amounted to RMB46 million, a 65.9% decrease from RMB135 million in 2003, reflecting our successful recoveries on a larger amount of such loans in 2003, which was primarily due to our focus on collection efforts.

Primarily as a result of the above factors, the coverage ratio of our total allowance for impairment losses to total non-performing loans increased to 101.4% at December 31, 2004 from 88.0% at December 31, 2003.

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### *Distribution of Allowance for Impairment Losses by Product Type*

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

	At December 31,									At March 31,		
	2003			2004			2005			2006		
	Amount	% of Total	Allowance to NPLs <sup>(1)</sup>	Amount	% of Total	Allowance to NPLs <sup>(1)</sup>	Amount	% of Total	Allowance to NPLs <sup>(1)</sup>	Amount	% of Total	Allowance to NPLs <sup>(1)</sup>
(in millions of RMB, except percentages)												
<b>Corporate loans</b>												
Working capital loans .....	6,636	77.9%	80.7%	8,390	76.8%	91.3%	10,119	74.9%	95.9%	10,493	73.4%	98.8%
Fixed asset loans ...	679	8.0	81.4	818	7.5	120.1	1,104	8.2	180.7	1,277	8.9	225.2
Trade finance .....	223	2.6	160.4	278	2.6	205.9	321	2.4	317.8	293	2.1	250.4
Others <sup>(2)</sup> .....	178	2.1	92.2	253	2.3	72.1	299	2.2	67.8	328	2.3	76.3
Subtotal .....	7,716	90.6	82.2	9,739	89.2	94.0	11,843	87.7	101.2	12,391	86.7	105.6
<b>Discounted bills<sup>(3)</sup> .....</b>	198	2.3	—	128	1.2	—	183	1.3	—	271	1.9	—
<b>Retail loans</b>												
Residential mortgage loans .....	478	5.6	188.2	863	7.9	285.8	1,292	9.6	403.8	1,388	9.7	411.9
Credit card balances .....	9	0.1	180.0	55	0.5	117.0	85	0.6	109.0	115	0.8	121.1
Automobile loans ...	57	0.7	259.1	64	0.6	125.5	41	0.3	91.1	55	0.4	82.1
Others <sup>(4)</sup> .....	62	0.7	1,240.0	71	0.6	546.2	66	0.5	388.2	77	0.5	285.2
Subtotal .....	606	7.1	211.9	1,053	9.6	255.0	1,484	11.0	322.6	1,635	11.4	310.8
<b>Total .....</b>	<b>8,520</b>	<b>100.0%</b>	<b>88.0%</b>	<b>10,920</b>	<b>100.0%</b>	<b>101.4%</b>	<b>13,510</b>	<b>100.0%</b>	<b>111.0%</b>	<b>14,297</b>	<b>100.0%</b>	<b>116.6%</b>

- (1) Calculated by dividing the amount of the allowance for impairment losses on loans in each category by the amount of non-performing loans in that category.
- (2) Consists primarily of factoring and corporate mortgage loans. The amount of the allowance for impairment losses includes the allowance for impairment losses on non-performing corporate acceptance bills, which are treated as corporate loans for recovery management purposes. Such allowance amounted to RMB89 million, RMB94 million, RMB70 million and RMB11 million, representing allowance to NPL ratio of 68.5%, 71.2%, 56.9% and 47.8% for these bills at March 31, 2006 and December 31, 2005, 2004 and 2003, respectively.
- (3) Excludes the allowance for impairment losses of non-performing corporate acceptance discounted bills referred to in the above note (2).
- (4) Consists primarily of retail loans secured by monetary assets, home improvement loans, education loans and general consumption loans.



## ASSETS AND LIABILITIES

### *Distribution of Allowance for Impairment Losses for Corporate Loans by Industry*

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

	At December 31,									At March 31,		
	2003			2004			2005			2006		
	Amount	% of Total	Allowance to NPLs <sup>(1)</sup>	Amount	% of Total	Allowance to NPLs <sup>(1)</sup>	Amount	% of Total	Allowance to NPLs <sup>(1)</sup>	Amount	% of Total	Allowance to NPLs <sup>(1)</sup>
(in millions of RMB, except percentages)												
Transportation and telecommunications ..	853	11.0%	437.4%	1,188	12.2%	256.0%	1,405	11.9%	210.0%	1,570	12.7%	242.7%
Transportation .....	414	5.3	262.0	501	5.1	153.7	558	4.7	150.0	534	4.3	150.0
Road development ...	225	2.9	1,250.0	390	4.0	2,052.6	531	4.5	—	715	5.8	—
Telecommunications ..	146	1.9	—	152	1.6	241.3	150	1.3	120.0	149	1.2	121.1
Others <sup>(2)</sup> .....	68	0.9	357.9	145	1.5	258.9	166	1.4	96.5	172	1.4	102.4
Manufacturing .....	1,356	17.6	115.9	1,779	18.3	104.8	2,816	23.8	84.0	2,938	23.7	87.1
Mechanical industry .....	260	3.4	122.6	364	3.7	186.7	452	3.8	119.3	493	4.0	127.7
Electronics and computers .....	243	3.2	114.6	329	3.4	91.9	548	4.6	73.6	568	4.6	82.1
Garment .....	212	2.7	95.9	219	2.3	117.1	253	2.1	121.1	285	2.3	143.2
Pharmaceutical .....	78	1.0	371.4	165	1.7	65.2	569	4.8	52.5	601	4.8	55.9
Chemical materials ..	135	1.7	79.4	116	1.2	74.4	158	1.4	151.9	208	1.7	150.7
Metal production ....	67	0.9	216.1	97	1.0	236.6	132	1.1	528.0	132	1.1	528.0
Others <sup>(3)</sup> .....	361	4.7	119.1	489	5.0	96.4	704	6.0	87.5	651	5.2	75.8
Energy and resources ...	668	8.7	230.3	891	9.1	266.0	986	8.3	280.9	1,132	9.1	330.0
Infrastructure and construction .....	230	3.0	149.4	275	2.8	178.6	303	2.5	234.9	322	2.6	251.6
Trading .....	1,522	19.7	78.6	1,831	18.8	85.7	2,116	17.9	90.2	2,163	17.5	85.7
Property development and investment .....	1,411	18.3	39.6	1,781	18.3	50.8	2,055	17.3	72.6	1,926	15.5	75.4
Investment management .....	289	3.7	99.0	485	5.0	115.2	599	5.1	146.5	586	4.7	147.2
Hospitality .....	476	6.2	82.8	555	5.7	107.6	595	5.0	90.3	637	5.2	87.4
Others <sup>(4)</sup> .....	911	11.8	75.0	954	9.8	84.5	968	8.2	100.4	1,117	9.0	107.9
<b>Total corporate loans .....</b>	<u>7,716</u>	<u>100.0%</u>	<u>82.2%</u>	<u>9,739</u>	<u>100.0%</u>	<u>94.0%</u>	<u>11,843</u>	<u>100.0%</u>	<u>101.2%</u>	<u>12,391</u>	<u>100.0%</u>	<u>105.6%</u>

- (1) Calculated by dividing the amount of the allowance for impairment losses on loans in each category by the amount of non-performing loans in that category.
- (2) Consists primarily of urban public transportation, postal service and software industry.
- (3) Consists primarily of manufacturing of paper, handicrafts, plastics, petroleum, nonferrous metals, food and rubber.
- (4) Consists primarily of education, public utility management, government agencies, financial services, food processing, water conservancy facilities and hospital.

## ASSETS AND LIABILITIES

### *Distribution of Allowance for Impairment Losses by Geographical Region*

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

	At December 31,									At March 31,		
	2003			2004			2005			2006		
	Amount	% of Total	Allowance to NPLs <sup>(1)</sup>	Amount	% of Total	Allowance to NPLs <sup>(1)</sup>	Amount	% of Total	Allowance to NPLs <sup>(1)</sup>	Amount	% of Total	Allowance to NPLs <sup>(1)</sup>
(in millions of RMB, except percentages)												
Eastern China . . . . .	1,606	18.9%	261.1%	2,157	19.8%	338.6%	2,667	19.7%	313.0%	2,885	20.2%	291.1%
Southern and Central China <sup>(2)</sup> . . . . .	5,116	60.0	65.4	5,978	54.7	75.3	6,790	50.3	92.9	7,174	50.2	100.0
Northern China . . . . .	1,083	12.7	151.9	1,497	13.7	199.1	1,824	13.5	173.9	1,732	12.1	158.2
Western China . . . . .	704	8.3	133.1	1,184	10.8	88.6	2,098	15.5	73.6	2,361	16.5	81.6
Others <sup>(3)</sup> . . . . .	11	0.1	—	104	1.0	93.7	131	1.0	121.3	145	1.0	134.3
<b>Total</b> . . . . .	<u>8,520</u>	<u>100.0%</u>	<u>88.0%</u>	<u>10,920</u>	<u>100.0%</u>	<u>101.4%</u>	<u>13,510</u>	<u>100.0%</u>	<u>111.0%</u>	<u>14,297</u>	<u>100.0%</u>	<u>116.6%</u>

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

(2) Includes our head office.

(3) Represents our Hong Kong branch.

### Investment Securities and Other Financial Assets

Our investment securities and other financial assets consists of listed and unlisted Renminbi- and foreign currency-denominated securities. Investment securities and other financial assets represented 17.5%, 18.0%, 19.2% and 18.5% of our total assets at March 31, 2006 and December 31, 2005, 2004 and 2003, respectively. Effective January 1, 2005, we have classified our investment securities and other financial assets into (i) financial assets at fair value through profit or loss, (ii) available-for-sale financial assets, (iii) held-to-maturity financial assets and (iv) receivables, primarily based on our intentions with respect to these assets and pursuant to the requirements of revised IAS 39. We have also retrospectively reclassified our investment securities and other financial assets at December 31, 2004 and 2003 into these categories based on our intentions with respect to these assets at those dates by applying the same accounting standards as those adopted for classifying our investment securities and other financial assets at December 31, 2005. The following table sets forth, at the dates indicated, the components of our investment securities and other financial assets.

	At December 31,						At March 31,	
	2003		2004		2005		2006	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
(in millions of RMB, except percentages)								
Financial assets at fair value through profit or loss . . . . .	5,061	5.5%	5,607	5.0%	15,869	12.0%	10,622	7.9%
Available-for-sale financial assets . . . . .	5,792	6.3	37,683	33.5	60,086	45.6	68,608	51.0
Held-to-maturity financial assets . . . . .	67,672	74.1	58,180	51.6	48,711	36.9	48,187	35.8
Receivables . . . . .	12,864	14.1	11,175	9.9	7,236	5.5	7,233	5.3
<b>Total</b> . . . . .	<u>91,389</u>	<u>100.0%</u>	<u>112,645</u>	<u>100.0%</u>	<u>131,902</u>	<u>100.0%</u>	<u>134,650</u>	<u>100.0%</u>

## ASSETS AND LIABILITIES

The following table sets forth, at the dates indicated, the distribution of our investment securities and other non-derivative financial assets between those purchased in the PRC and those purchased overseas and between listed and unlisted assets, as well as financial derivatives.

	At December 31,						At March 31,	
	2003		2004		2005		2006	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
(in millions of RMB, except percentages)								
PRC								
Listed .....	67,404	73.8%	88,087	78.2%	102,622	77.8%	105,247	78.2%
Unlisted .....	7,144	7.8	7,173	6.4	12,317	9.4	12,014	8.9
	<u>74,548</u>	<u>81.6</u>	<u>95,260</u>	<u>84.6</u>	<u>114,939</u>	<u>87.2</u>	<u>117,261</u>	<u>87.1</u>
Overseas								
Listed .....	10,663	11.7	13,234	11.8	13,042	9.9	13,187	9.8
Unlisted .....	6,100	6.7	4,085	3.6	3,835	2.9	4,124	3.1
	<u>16,763</u>	<u>18.4</u>	<u>17,319</u>	<u>15.4</u>	<u>16,877</u>	<u>12.8</u>	<u>17,311</u>	<u>12.9</u>
Financial derivatives .....	78	—	66	—	86	—	78	—
	<u>91,389</u>	<u>100.0%</u>	<u>112,645</u>	<u>100.0%</u>	<u>131,902</u>	<u>100.0%</u>	<u>134,650</u>	<u>100.0%</u>

The investment securities and other financial assets purchased in the PRC markets consist primarily of securities denominated in Renminbi, and the investment securities and other financial assets purchased in overseas markets consist of securities denominated in foreign currencies, primarily in U.S. dollars. Listed investment securities and other financial assets are those listed or traded on recognized securities exchanges. We hold financial derivatives to generally hedge our interest rate risk and foreign exchange risk.

At March 31, 2006, our total investment securities and other financial assets amounted to RMB134.7 billion, an increase of 2.1% from RMB131.9 billion at December 31, 2005. Our total investment securities and other financial assets increased by 17.1% to RMB131.9 billion at December 31, 2005 from RMB112.6 billion at December 31, 2004, which in turn increased by 23.3% from RMB91.4 billion at December 31, 2003. The overall increase between December 31, 2003 and March 31, 2006 was primarily due to increases in available-for-sale financial assets and financial assets at fair value through profit or loss, partially offset by decreases in held-to-maturity financial assets and receivables.

### *Financial Assets at Fair Value through Profit or Loss*

These are (i) financial assets held for trading purposes and (ii) non-derivative financial assets we designated upon initial recognition to be carried at fair value through profit or loss in accordance with the fair-value option available under IAS 39. The latter category of financial assets, although not as actively traded as the former category, are managed as if they constituted a part of our trading portfolio. We elected the fair-value-option for the latter category to avoid different accounting treatments for similarly managed portfolios. Financial assets at fair value through profit or loss represented 7.9%, 12.0%, 5.0% and 5.5% of our investment securities and other financial assets at March 31, 2006 and December 31, 2005, 2004 and 2003, respectively.

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The following table sets forth, at the dates indicated, the components of our financial assets at fair value through profit or loss.

	At December 31,						At March 31,	
	2003		2004		2005		2006	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
(in millions of RMB, except percentages)								
PRC government bonds	4,983	98.5%	5,066	90.3%	5,523	34.8%	5,231	49.3%
PBOC bills	—	—	—	—	5,081	32.0	1,788	16.8
Bonds issued by PRC policy banks	—	—	475	8.5	4,003	25.2	2,352	22.2
Other debt securities	—	—	—	—	1,144	7.2	1,140	10.7
Equity securities	—	—	—	—	32	0.2	33	0.3
Derivative financial instruments	78	1.5	66	1.2	86	0.6	78	0.7
<b>Total</b>	<u>5,061</u>	<u>100.0%</u>	<u>5,607</u>	<u>100.0%</u>	<u>15,869</u>	<u>100.0%</u>	<u>10,622</u>	<u>100.0%</u>

At March 31, 2006, our financial assets at fair value through profit or loss amounted to RMB10.6 billion, a decrease of 33.1% from RMB15.9 billion at December 31, 2005, primarily due to a decrease of RMB5.2 billion in trading assets. This decrease primarily reflected the sales of PBOC bills and PRC policy bank debt securities to our customers, including banks and other financial institutions.

At December 31, 2005, our financial assets at fair value through profit or loss were RMB15.9 billion, an increase of 183.0% from RMB5.6 billion at December 31, 2004, primarily due to an increase of RMB10.1 billion in our trading assets in anticipation of and in response to increased volumes of trading with our customers. Our financial assets at fair value through profit or loss increased by 10.8% to RMB5.6 billion at December 31, 2004 from RMB5.1 billion at December 31, 2003, primarily due to increases in debt securities issued by PRC policy banks that we designated as financial assets at fair value through profit or loss.

Prior to January 1, 2005, our securities dealing activities were primarily customer-driven and we did not hold securities for proprietary trading purposes. We earmarked a small portfolio of securities in our available-for-sale investments for trading with customers. We also effected transactions in financial derivatives in an effort to generally hedge our interest rate risk and foreign exchange risk. In early 2005, we established a separate trading portfolio and purchased securities primarily in anticipation of and in response to increased trading volumes with our customers. At December 31, 2005, our trading assets totaled RMB10.1 billion. See Note 18(a) to the Accountants' Report in Appendix I to this prospectus. Our trading assets consist of listed securities and financial derivatives. Listed securities consist primarily of PBOC bills, debt securities issued by PRC policy banks and other debt securities. The "other debt securities" in our trading portfolio at December 31, 2005 and March 31, 2006 consisted primarily of PRC corporate commercial paper following the introduction of this product in the PRC in May 2005.

Our financial assets designated at fair value through profit or loss consist of listed debt securities issued by the PRC government and PRC policy banks. These financial assets amounted to RMB5.7 billion at March 31, 2006 and December 31, 2005, RMB5.5 billion at December 31, 2004 and RMB5.0 billion at December 31, 2003. See Note 18(a) to the Accountants' Report in Appendix I to this prospectus.

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### *Available-for-sale Financial Assets*

These are non-derivative financial assets held for an indeterminate period which we may sell at any time. Available-for-sale financial assets represented 51.0%, 45.6%, 33.5% and 6.3% of our investment securities and other financial assets at March 31, 2006 and December 31, 2005, 2004 and 2003, respectively.

The following table sets forth, at the dates indicated, the components of our available-for-sale financial assets in our investment portfolio.

	At December 31,						At March 31,	
	2003		2004		2005		2006	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
(in millions of RMB, except percentages)								
PRC government bonds	1,072	18.5%	13,572	36.0%	7,891	13.1%	9,162	13.3%
PBOC bills	4,050	69.9	8,040	21.3	27,502	45.8	32,721	47.7
Bonds issued by PRC policy banks	290	5.0	8,582	22.8	9,751	16.2	8,889	13.0
Other debt securities	333	5.8	6,058	16.1	13,685	22.8	15,776	23.0
Other investments	—	—	1,349	3.6	1,211	2.0	2,014	2.9
Equity investments	47	0.8	82	0.2	46	0.1	46	0.1
<b>Total</b>	<u>5,792</u>	<u>100.0%</u>	<u>37,683</u>	<u>100.0%</u>	<u>60,086</u>	<u>100.0%</u>	<u>68,608</u>	<u>100.0%</u>

At March 31, 2006, our available-for-sale financial assets amounted to RMB68.6 billion, an increase of 14.2% from RMB60.1 billion at December 31, 2005. Our available-for-sale financial assets increased by 59.5% to RMB60.1 billion at December 31, 2005 from RMB37.7 billion at December 31, 2004, which in turn showed a substantial increase from RMB5.8 billion at December 31, 2003. The increase from December 31, 2003 to March 31, 2006 reflected our policy of increasing our flexibility with respect to asset and liability management.

At March 31, 2006, the largest component of our available-for-sale financial assets consisted of PBOC bills. The increase in our holdings of PBOC bills since December 31, 2003 reflected both (i) our preference for these instruments in terms of their investment return and liquidity profile, and (ii) the greater availability of PBOC bills in recent years than PRC government bonds whose maturities fit our preference, as a result of the PBOC's measures to restrain the growth of the money supply.

Other debt securities, which at March 31, 2006 were the second largest component of our available-for-sale financial assets, consist primarily of commercial paper issued by PRC companies and foreign currency-denominated investment-grade debt issued by non-PRC governments, financial institutions and corporations, as well as by international organizations. The increase in our holdings of other debt securities from December 31, 2004 to March 31, 2006 primarily reflected our investment in PRC corporate commercial paper following the introduction of this product in the PRC in May 2005. The increase in other debt securities at December 31, 2004 from December 31, 2003 was primarily attributable to our investment in U.S. dollar- and Hong Kong dollar-denominated debt issued by non-PRC financial institutions and corporations as well as international organizations.

Our holdings in PRC government bonds since December 31, 2003 have fluctuated primarily as a function of their availability and the availability of other investment alternatives. The increase in PRC government bonds at March 31, 2006 from December 31, 2005 was also attributable to our

## ASSETS AND LIABILITIES

increased focus on improving our after-tax net income, as interest income from these instruments is exempt from income tax.

PRC policy bank debt securities have sovereign-equivalent credit ratings. After we increased our holdings in these securities at December 31, 2004 as part of our overall increase in the available-for-sale component of our investment portfolio, the amount of PRC policy bank debt we hold has remained relatively stable in absolute terms, reflecting our preference for diversifying into other types of investment securities.

Other investments consist primarily of investments in foreign currency-denominated money market funds.

The equity investments in our available-for-sale portfolio consisted primarily of our equity interests in China Unionpay and Electronic Payment Services Company (Hong Kong) Limited, an electronic payment service company collectively owned by commercial banks operating in Hong Kong.

### *Held-to-maturity Financial Assets*

These are non-derivative fixed income assets with fixed maturities which we intend and are able to hold to maturity. Held-to-maturity financial assets represented 35.8%, 36.9%, 51.6% and 74.1% of our investment securities and other financial assets at March 31, 2006 and December 31, 2005, 2004 and 2003, respectively.

The following table sets forth, at the dates indicated, the components of the held-to-maturity financial assets in our investment portfolio.

	At December 31,						At March 31,	
	2003		2004		2005		2006	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
(in millions of RMB, except percentages)								
PRC government bonds	28,125	41.6%	18,403	31.6%	15,321	31.5%	15,293	31.7%
PBOC bills	3,160	4.7	12,579	21.6	1,137	2.3	319	0.7
Bonds issued by PRC policy banks	26,196	38.7	21,533	37.0	23,532	48.3	23,512	48.8
Other debt securities	10,191	15.0	5,665	9.8	8,721	17.9	9,063	18.8
<b>Total</b>	<u>67,672</u>	<u>100.0%</u>	<u>58,180</u>	<u>100.0%</u>	<u>48,711</u>	<u>100.0%</u>	<u>48,187</u>	<u>100.0%</u>

At March 31, 2006, our held-to-maturity financial assets amounted to RMB48.2 billion, a slight decrease from RMB48.7 billion at December 31, 2005. Our held-to-maturity financial assets decreased by 16.3% to RMB48.7 billion at December 31, 2005 from RMB58.2 billion at December 31, 2004, which in turn decreased by 14.0% from RMB67.7 billion at December 31, 2003. The overall decrease in our held-to-maturity securities from December 31, 2003 to March 31, 2006 was primarily due to the redemption of these securities upon maturity and an overall decrease in the volume of new investments which we intend to hold to maturity.

This trend was particularly reflected in our holdings of PBOC bills since December 31, 2004. The increase in PBOC bills from December 31, 2003 to December 31, 2004 was primarily attributable to (i) the increased volume of new issuances of PBOC bills with maturities of one year or less in the

## ASSETS AND LIABILITIES

second half of 2004, reflecting the PBOC's efforts to restrain the growth in the money supply, and (ii) our preference for their investment return and liquidity profile.

Other debt securities consist primarily of foreign currency-denominated investment-grade debt securities issued by non-PRC governments, financial institutions and corporations, as well as by international organizations. After reducing our holdings in other debt securities from December 31, 2003 to December 31, 2004 as part of the overall reduction of our held-to-maturity securities, we increased the other debt securities we hold from December 31, 2004 to December 31, 2005 as a result of our preference for diversifying our investment portfolio.

### *Receivables*

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market or are not actively traded. Receivables represented 5.3%, 5.5%, 9.9% and 14.1% of our investment securities and other financial assets at March 31, 2006 and December 31, 2005, 2004 and 2003, respectively.

The following table sets forth, at the dates indicated, the components of our receivables.

	At December 31,		At December 31,		At December 31,		At March 31,	
	2003		2004		2005		2006	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
(in millions of RMB, except percentages)								
PRC government bonds in certificate form	7,105	55.2%	7,099	63.5%	5,388	74.5%	5,092	70.4%
Other debt securities	5,759	44.8	4,076	36.5	1,848	25.5	2,141	29.6
<b>Total</b>	<u>12,864</u>	<u>100.0%</u>	<u>11,175</u>	<u>100.0%</u>	<u>7,236</u>	<u>100.0%</u>	<u>7,233</u>	<u>100.0%</u>

Our receivables amounted to RMB7.2 billion at March 31, 2006, which remained effectively stable compared to December 31, 2005. At December 31, 2005, receivables totaled RMB7.2 billion, a decrease of 35.2% from December 31, 2004, which in turn decreased by 13.1% from RMB12.9 billion at December 31, 2003.

PRC government bonds in certificate form represent the unsold allotments of our distributions of these securities to retail investors in China. The overall decrease in the balance of these securities from December 31, 2003 to March 31, 2006 was primarily due to redemptions at maturity and, at December 31, 2005, a lower level of unsold allotments as a result of increased market demand in 2005.

Other debt securities consist primarily of foreign currency-denominated investment-grade debt securities which we purchase in order to be able to offer certain structured wealth management products to our customers. Our holdings of these securities fluctuate primarily as a function of customer demand for the related structured products.



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### *Maturity Profile of Investment Portfolio*

The following table sets forth, at March 31, 2006, debt securities in our investment securities and other financial assets by remaining maturity.

	At March 31, 2006								
	Due less than 3 Months		Due between 3 Months to 1 Year		Due Over 1 Year up to 5 Years		Due More than 5 years		Total
	Amount	Weighted Average Yield <sup>(1)</sup>	Amount	Weighted Average Yield <sup>(1)</sup>	Amount	Weighted Average Yield <sup>(1)</sup>	Amount	Weighted Average Yield <sup>(1)</sup>	Amount
	(in millions of RMB, except percentages)								
Financial assets at fair value through profit or loss <sup>(2)</sup> . . . . .	951	2.69%	4,350	2.70	4,783	2.86%	427	4.63%	10,511
Available-for-sale financial assets <sup>(2)</sup> . . . .	8,556	2.88	27,317	2.34	27,731	3.43	4,958	3.76	68,562
Held-to-maturity financial assets . . . . .	1,734	3.94	6,409	2.98	26,322	3.00	13,722	3.27	48,187
Receivables . . . . .	<u>526</u>	<u>2.85</u>	<u>853</u>	<u>3.03</u>	<u>5,202</u>	<u>2.81</u>	<u>652</u>	<u>4.72</u>	<u>7,233</u>
<b>Total</b> . . . . .	11,767	3.02%	38,929	2.50%	64,038	3.16%	19,759	3.47%	134,493

(1) Represents effective interest yield to maturity calculated based on the amortized cost of the securities.

(2) The remaining maturities of these financial assets are the remaining contract maturities of such assets and do not necessarily represent our intentions with respect to such assets.

### *Carrying Value and Market Value*

All investment securities and other financial assets classified as available-for-sale and financial assets at fair value through profit or loss are stated at market value or fair value. Since there is no established market for the receivables in our investment portfolio and we expect to realize the full face value of these receivables at the maturity, we do not assess market value or fair value of these receivables. The following table sets forth, at the dates indicated, the carrying value and the market value of the held-to-maturity securities in our investment portfolio.

	At December 31,						At March 31,	
	2003		2004		2005		2006	
	Carrying Value	Market/Fair Value	Carrying Value	Market/Fair Value	Carrying Value	Market/Fair Value	Carrying Value	Market/Fair Value
	(in millions of RMB)							
Held-to-maturity debt securities . . . . .	67,672	68,475	58,180	57,737	48,711	48,997	48,187	48,490

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### *Investment Concentration*

The following table sets forth, at March 31, 2006, our investment securities and other financial assets whose carrying value exceeded 10.0% of our shareholders' equity.

	At March 31, 2006			
	Carrying Value	% of Total Investment Securities and Other Financial Assets	% of Total Shareholders' Equity <sup>(1)</sup>	Market/ Fair Value
(in millions of RMB, except percentage)				
The PBOC .....	34,828	25.9%	106.8%	34,829
The MOF .....	34,778	25.8	106.6	34,990
China Development Bank <sup>(2)</sup> .....	29,643	22.0	90.9	29,829
The Export-Import Bank of China <sup>(2)</sup> .....	3,893	2.9	11.9	3,915
China Ministry of Railway .....	3,301	2.5	10.1%	3,310
<b>Total</b> .....	<u>106,443</u>	<u>79.1%</u>	<u>—</u>	<u>106,873</u>

(1) For a calculation of 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 consist primarily of (i) balances with central bank, (ii) placements with banks and other financial institutions, and (iii) cash and deposits with banks and other financial institutions.

Balances with central bank consist primarily of 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 which we maintain for settlement purposes. At March 31, 2006, our balances with central bank amounted to RMB54.9 billion, a decrease of 11.7% from RMB62.1 billion at December 31, 2005, primarily reflecting a decrease in surplus deposit reserves, partially offset by an increase in statutory deposit reserves. The decrease in our surplus deposit reserves reflected both their relatively low interest rates and an improvement in the PBOC's clearing facilities, which enable us to maintain a lower balance for settlement purposes. The increase in our statutory deposit reserves was in line with the increase in our deposits from customers. The amount of balances with central bank increased by 12.9% to RMB62.1 billion at December 31, 2005 from RMB55.0 billion at December 31, 2004, which in turn increased by 8.6% from RMB50.7 billion at December 31, 2003. The overall increase was 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.

Placements with banks and other financial institutions consist primarily of inter-bank placements and balances under resale agreements. Our placements with banks and other financial institutions, net of the allowance for impairment losses, decreased by 16.0% to RMB39.4 billion at March 31, 2006 from RMB47.0 billion at December 31, 2005, reflecting the increased allocation of our funds to other assets. Placements with banks and other financial institutions, net of the allowance for impairment losses, increased by 63.0% to RMB47.0 billion at December 31, 2005 from RMB28.8

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## ASSETS AND LIABILITIES

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billion at December 31, 2004, primarily reflecting our increased funding from our customer deposits. Placements with banks and other financial institutions, net of the allowance for impairment losses, increased by 12.4% to RMB28.8 billion at December 31, 2004 from RMB25.6 billion at December 31, 2003, primarily reflecting our increased funding from customer deposits. For a discussion of the change in the average balances of amounts due from banks and other financial institutions and impact on our interest income, See “Financial Information — Results of Operations — Years Ended December 31, 2005, 2004 and 2003 — Net Interest Income.” Our allowance for impairment losses for placements with banks and other financial institutions amounted to RMB127 million, RMB249 million, RMB170 million and RMB185 million at March 31, 2006 and December 31, 2005, 2004 and 2003, respectively.

Cash and balances with banks and other financial institutions, net of the allowance for impairment losses, amounted to RMB22.7 billion at March 31, 2006, which remained effectively stable compared to December 31, 2005. Cash and balances with banks and other financial institutions, net of the allowance for impairment losses, increased by 46.3% to RMB22.5 billion at December 31, 2005 from RMB15.4 billion at December 31, 2004, primarily because we increased our balances with banks and other financial institutions following the PBOC’s abolition of the limits on interest rates on inter-bank deposits, which resulted in a resetting of interest rates on inter-bank deposits in line with interest rates on inter-bank placements. Cash and balances with banks and other financial institutions, net of the allowance for impairment losses, decreased by 8.7% to RMB15.4 billion at December 31, 2004 from RMB16.8 billion at December 31, 2003, reflecting the increased allocation of our funds to other assets. For a discussion of the change in the average balances of amounts due from banks and other financial institutions and impact on our interest income, See “Financial Information — Results of Operations — Years Ended December 31, 2005, 2004 and 2003 — Net Interest Income.” The allowance for impairment losses for balances with banks and other financial institutions amounted to RMB99 million, RMB98 million, RMB120 million and RMB118 million at March 31, 2006 and December 31, 2005, 2004 and 2003, respectively.

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### LIABILITIES AND SOURCES OF FUNDS

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

	At December 31,						At March 31,	
	2003		2004		2005		2006	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
(in millions of RMB, except percentages)								
Deposits from customers .....	406,886	85.5%	512,586	90.8%	634,404	89.5%	667,271	90.9%
Deposits from banks and other financial institutions .....	28,499	6.0	25,053	4.4	39,673	5.6	36,259	4.9
Placements from banks and other financial institutions .....	28,559	6.0	7,943	1.4	3,574	0.5	1,621	0.2
Amount due to central bank .....	5,989	1.3	—	—	—	—	—	—
Certificates of deposit issued .....	—	—	1,242	0.2	1,211	0.2	1,202	0.2
Convertible bonds issued .....	—	—	5,550	1.0	5,184	0.7	42	—
Subordinated notes issued .....	—	—	3,500	0.6	3,500	0.5	3,500	0.5
Fixed-term notes issued .....	—	—	—	—	9,982	1.4	9,983	1.4
Others <sup>(1)</sup> .....	5,730	1.2	8,883	1.6	11,087	1.6	14,181	1.9
<b>Total liabilities</b> .....	<u>475,663</u>	<u>100.0%</u>	<u>564,757</u>	<u>100.0%</u>	<u>708,615</u>	<u>100.0%</u>	<u>734,059</u>	<u>100.0%</u>

(1) Consists of financial liabilities at fair value through profit or loss, current taxation and other liabilities.

At March 31, 2006, our total liabilities amounted to RMB734.1 billion, an increase of 3.6% from RMB708.6 billion at December 31, 2005. Our total liabilities increased by 25.5% to RMB708.6 billion at December 31, 2005 from RMB564.8 billion at December 31, 2004, which in turn increased by 18.7% from RMB475.7 billion at December 31, 2003. Deposits from customers have historically been our primary source of funding and represented 90.9%, 89.5%, 90.8% and 85.5% of our total liabilities at March 31, 2006 and December 31, 2005, 2004 and 2003, respectively.

### Deposits from Customers

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

	At December 31,						At March 31,	
	2003		2004		2005		2006	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
(in millions of RMB, except percentages)								
<b>Corporate deposits<sup>(1)</sup></b>								
Demand .....	164,095	40.3%	198,152	38.7%	219,230	34.6%	212,950	31.9%
Time .....	86,614	21.3	116,546	22.7	159,245	25.1	176,538	26.5
Subtotal .....	<u>250,709</u>	<u>61.6</u>	<u>314,698</u>	<u>61.4</u>	<u>378,475</u>	<u>59.7</u>	<u>389,488</u>	<u>58.4</u>
<b>Retail deposits</b>								
Demand .....	76,663	18.8	96,833	18.9	118,566	18.7	125,405	18.8
Time .....	79,514	19.6	101,055	19.7	137,363	21.6	152,378	22.8
Subtotal .....	<u>156,177</u>	<u>38.4</u>	<u>197,888</u>	<u>38.6</u>	<u>255,929</u>	<u>40.3</u>	<u>277,783</u>	<u>41.6</u>
<b>Total deposits from customers</b> ...	<u>406,886</u>	<u>100.0%</u>	<u>512,586</u>	<u>100.0%</u>	<u>634,404</u>	<u>100.0%</u>	<u>667,271</u>	<u>100.0%</u>

(1) Consists of deposits from corporate customers, government authorities and other organizations.

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At March 31, 2006, our total deposits from customers amounted to RMB667.3 billion, an increase of 5.2% from RMB634.4 billion at December 31, 2005. Our total deposits increased by 23.8% to RMB634.4 billion at December 31, 2005 from RMB512.6 billion at December 31, 2004, which increased by 26.0% from RMB406.9 billion at December 31, 2003. The overall increase from December 31, 2003 to March 31, 2006 was primarily as a result of the expansion of our branch network and our marketing efforts. As a percentage of our total deposits, our retail deposits showed a steady increase to 41.6% at March 31, 2006 from 40.3% at December 31, 2005, which in turn increased from 38.6% at December 31, 2004 and 38.4% at December 31, 2003, reflecting our strategy of expanding our retail banking business and in line with our business growth and the expansion of our branch network. Time deposits from our corporate and retail customers showed steady increases both in absolute terms and as a percentage of our total deposits since December 31, 2003, primarily because our customers increased their time deposits with us following the increase of the PBOC benchmark interest rates for time deposits in October 2004. A greater proportion of our corporate deposits consist of demand deposits primarily because our corporate customers often maintain demand deposit accounts to meet their potential liquidity requirements.

### *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, at the dates indicated, the distribution of our deposits from customers by geographical region.

	At December 31,						At March 31,	
	2003		2004		2005		2006	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
(in millions of RMB, except percentages)								
Eastern China .....	123,181	30.3%	160,490	31.3%	207,412	32.7%	221,843	33.2%
Southern and Central China <sup>(1)</sup> .....	120,278	29.6	150,537	29.4	189,717	29.9	206,638	31.0
Northern China .....	105,219	25.9	129,096	25.2	154,110	24.3	153,936	23.1
Western China .....	57,182	14.0	68,958	13.4	77,353	12.2	76,766	11.5
Others <sup>(2)</sup> .....	1,026	0.2	3,505	0.7	5,812	0.9	8,088	1.2
<b>Total</b> .....	<u>406,886</u>	<u>100.0%</u>	<u>512,586</u>	<u>100.0%</u>	<u>634,404</u>	<u>100.0%</u>	<u>667,271</u>	<u>100.0%</u>

(1) Includes our head office.

(2) Represents our Hong Kong branch.

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### *Distribution of Deposits by Remaining Maturity*

The following table sets forth, at March 31, 2006, the distribution of our deposits from customers by remaining maturity.

At March 31, 2006													
Repayable on Demand		Due Less than 1 Month		Due over 1 Month up to 3 Months		Due over 3 Months up to 12 Months		Due over 1 Year up to 5 Years		Due More than 5 Years			
% of Amount	% of Total	% of Amount	% of Total	% of Amount	% of Total	% of Amount	% of Total	% of Amount	% of Total	% of Amount	% of Total		
(in millions of RMB, except percentages)													
Corporate deposits <sup>(1)</sup>	240,119	63.1%	27,947	61.3%	37,068	55.9%	72,073	50.4%	11,639	37.9%	642	65.3%	389,488
Retail deposits	140,609	36.9	17,640	38.7	29,302	44.1	70,839	49.6	19,052	62.1	341	34.7	277,783
<b>Total deposits from customers</b>	<b>380,728</b>	<b>100.0%</b>	<b>45,587</b>	<b>100.0%</b>	<b>66,370</b>	<b>100.0%</b>	<b>142,912</b>	<b>100.0%</b>	<b>30,691</b>	<b>100.0%</b>	<b>983</b>	<b>100.0%</b>	<b>667,271</b>

(1) Consists of deposits from corporate customers, government authorities and other organizations.

### *Distribution of Deposits by Currency*

The following table sets forth, at March 31, 2006, the distribution of our deposits from customers by currency.

At March 31, 2006				
	RMB	USD	Others	Total
(in millions of RMB equivalent, except percentages)				
Corporate deposits	353,899	26,211	9,378	389,488
Retail deposits	245,148	20,556	12,079	277,783
<b>Total</b>	<b>599,047</b>	<b>46,767</b>	<b>21,457</b>	<b>667,271</b>

### **Other Components of Our Liabilities**

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

Deposits from banks and other financial institutions decreased by 8.6% to RMB36.3 billion at March 31, 2006 from RMB39.7 billion at December 31, 2005, primarily because certain inter-bank time deposits matured. Deposits from banks and other financial institutions increased by 58.4% to RMB39.7 billion at December 31, 2005 from RMB25.1 billion at December 31, 2004, primarily because we accepted larger amounts of inter-bank time deposits in 2005. Deposits from banks and other financial institutions decreased by 12.1% to RMB25.1 billion at December 31, 2004 from RMB28.5 billion at December 31, 2003, primarily due to a decrease in deposits from securities firms as a result of the continued slump in China's stock market.

Our issued debt securities consist primarily of (i) certificates of deposit with an aggregate nominal value of US\$150 million and a maturity of three years which we issued in June 2004, (ii) five-year convertible bonds with an aggregate nominal value of RMB6.5 billion which we issued in November 2004, (iii) subordinated notes with an aggregate nominal value of RMB3.5 billion and a maturity of 61 months which we issued in two series in March and June 2004, and (iv) fixed-term

## ASSETS AND LIABILITIES

notes with an aggregate nominal value of RMB10 billion and maturity of 36 or 60 months which we issued in two series in October 2005. At March 31, 2006, our total issued debt securities amounted to RMB14.7 billion, a decrease of 25.9% from RMB19.9 billion at December 31, 2005, primarily due to the conversion of our convertible bonds in an aggregate carrying amount of RMB5.1 billion into our A Shares. Our total issued debt increased by 93.1% to RMB19.9 billion at December 31, 2005 from RMB10.3 billion at December 31, 2004, primarily due to our issuance of fixed-term notes in October 2005. We had no issued debt at December 31, 2003.

Placements from banks and other financial institutions consist primarily of balances under repurchase agreements, money market borrowings and rediscounted bills. At March 31, 2006, placements from banks and other financial institutions amounted to RMB1.6 billion, a decrease of 54.6% from RMB3.6 billion at December 31, 2005. Placements from banks and other financial institutions decreased by 55.0% to RMB3.6 billion at December 31, 2005 from RMB7.9 billion at December 31, 2004, which in turn decreased by 72.2% from RMB28.6 billion at December 31, 2003. The overall decrease from December 31, 2003 to March 31, 2006 primarily reflected a decrease in our need for inter-bank borrowings due to our increased funding from customer deposits.

### SELECTED, UNAUDITED ASSETS AND LIABILITIES INFORMATION AT JUNE 30, 2006

#### Assets

At June 30, 2006, our total assets amounted to RMB824.3 billion, representing a 12.2% increase from RMB734.6 billion at December 31, 2005. The following table sets forth, at the dates indicated, the components of our total assets.

	At December 31, 2005		At June 30, 2006	
	Amount	% of Total	Amount	% of Total
	(unaudited)			
	(in millions of RMB, except percentages)			
Loans to customers, total	472,185	64.2%	531,577	64.5%
Loan loss allowance	(13,510)	(1.8)	(15,050)	(1.8)
Loans to customers, net	458,675	62.4	516,527	62.7
Investment securities and other financial assets	131,902	18.0	137,710	16.7
Balances with central bank	62,102	8.4	65,318	7.9
Placements with banks and other financial institutions <sup>(1)</sup>	46,982	6.4	65,193	7.9
Cash and deposits with banks and other financial institutions <sup>(2)</sup>	22,491	3.1	24,513	3.0
Others <sup>(3)</sup>	12,461	1.7	15,055	1.8
<b>Total assets</b>	<b>734,613</b>	<b>100.0%</b>	<b>824,316</b>	<b>100.0%</b>

(1) Placements with banks and other financial institutions are net of the related allowance for impairment losses of RMB154 million and RMB249 million at June 30, 2006 and December 31, 2005, respectively.

(2) Deposits with banks and other financial institutions are net of the related allowance for impairment losses of RMB29 million and RMB98 million at June 30, 2006 and December 31, 2005, respectively.

(3) Consists of fixed assets, deferred tax assets and other assets.

#### Loans to Customers

Our total loans to customers increased by 12.6% to RMB531.6 billion at June 30, 2006 from RMB472.2 billion at December 31, 2005. The following discussion is based on our total loans to



## ASSETS AND LIABILITIES

customers, before taking into account the related allowance for impairment losses, rather than our net loans to customers.

### *Distribution of Loans by Product Type*

The following table sets forth, at the dates indicated, our loans to customers by product type.

	At December 31,		At June 30,	
	2005		2006	
	Amount	% of Total	Amount	% of Total
	(unaudited)			
	(in millions of RMB, except percentages)			
Corporate loans	298,622	63.2%	349,274	65.7%
Discounted bills	99,527	21.1	96,245	18.1
Retail loans	74,036	15.7	86,058	16.2
<b>Total loans to customers</b>	<u>472,185</u>	<u>100.0%</u>	<u>531,577</u>	<u>100.0%</u>

Our corporate loans increased by 17.0% to RMB349.3 billion at June 30, 2006 from RMB298.6 billion at December 31, 2005, primarily due to continued increases in working capital loans and fixed asset loans. The increases in working capital loans and fixed asset loans primarily reflected the robust growth of China's economy and increased investments in fixed asset projects in the first half of 2006. In view of the PRC government's recent macroeconomic control measures to restrain the growth of lending, we expect that the rate of growth of our corporate loans will decrease in the second half of 2006.

Discounted bills decreased by 3.3% to RMB96.2 billion at June 30, 2006 from RMB99.5 billion at December 31, 2005, primarily due to a significant decrease in our discounted bill portfolio in the second quarter of 2006. We significantly increased our purchases of discounted bills, including corporate acceptance bills resold by banks, in the first quarter of 2006 based on our judgment of the interest rate trends, and subsequently sold a significant portion of these bills in the second quarter of 2006 in order to be able to allocate funds to higher-yielding assets and in response to the PRC government's recent macroeconomic policy measures to restrain the growth of lending.

Retail loans increased by 16.2% to RMB86.1 billion at June 30, 2006 from RMB74.0 billion at December 31, 2005, primarily due to the continued increase in our residential mortgage loans and, to a lesser extent, the increase in our credit card balances. Our residential mortgage loans grew at a relatively slower rate in the first half of 2006 than in earlier years, primarily reflecting the effect of the measures recently adopted by the PRC government in an effort to cool down the residential real estate market and increased competition in China's residential mortgage loan market. Our credit card balances continued to increase in the first half of 2006, reflecting the continued growth of our credit card customer base and our continued efforts to market our credit card products. Our automobile loans continued to decrease as a result of our continued efforts to reduce our exposure to this product, which historically has presented relatively high credit risk.



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### *Borrower Concentration*

The following table sets forth, at June 30, 2006, the loans to our ten largest single borrowers, all of which were performing at that date.

At June 30, 2006				
	Industry	Amount (unaudited)	% of Total Loans	% of Regulatory Capital <sup>(1)</sup>
(in millions of RMB, except percentages)				
Borrower A .....	Others – Financial services	4,000	0.7%	9.7%
Borrower B .....	Transportation	3,300	0.6	8.0
Borrower C .....	Transportation	3,050	0.6	7.4
Borrower D .....	Investment management	2,635	0.5	6.4
Borrower E .....	Transportation	2,500	0.5	6.1
Borrower F .....	Transportation	2,452	0.4	6.0
Borrower G .....	Energy and resources	1,956	0.4	4.8
Borrower H .....	Transportation	1,500	0.3	3.6
Borrower I .....	Transportation	1,400	0.3	3.4
Borrower J .....	Transportation	1,306	0.2	3.2
<b>Total</b> .....		<u>24,099</u>	<u>4.5%</u>	<u>58.6%</u>

(1) Represents loan amounts as a percentage of our regulatory capital, calculated in accordance with the requirements of the New Capital Adequacy Regulations and based on our financial statements prepared in accordance with PRC GAAP. Our regulatory capital at June 30, 2006 amounted to RMB41.2 billion. See “Financial Information — Selected, Unaudited Financial Information at and for the Six Months Ended June 30, 2006 — Capital Resources at June 30, 2006 — Capital Adequacy.”

Based on the information available to us, at June 30, 2006, the aggregate amount of loans to our ten largest borrowers (including group borrowers) totaled RMB30.7 billion, representing 5.8% of our total loans to customers, and none of our loans to any one group borrower exceeded 15% of our regulatory capital. However, information on the group affiliations of individual corporate entities may not be available to us on a timely basis or at all. See “Risk Factors — Risks Relating to the Banking Industry in China — The effectiveness of our credit risk management is affected by the quality and scope of information available in the PRC” and “Risk Factors — Risks Relating to Our Business — If we are not effective in implementing enhanced risk management and internal control policies and procedures and introducing certain information technology systems to assist us with our risk management and internal controls, our business and prospects may be materially and adversely affected.”

## ASSETS AND LIABILITIES

### *Asset Quality of Our Loan Portfolio*

#### *Distribution of Loans by Loan Classification*

The following tables set forth, at the dates indicated, the distribution of our loan portfolio by loan classification category. For details of our loan classification criteria, see “— Assets — Asset Quality of Our Loan Portfolio — Loan Classification Criteria.”

	<u>At December 31,</u>		<u>At June 30,</u>	
	<u>2005</u>		<u>2006</u>	
	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>
	<u>(unaudited)</u>			
	<u>(in millions of RMB, except percentages)</u>			
Normal . . . . .	445,504	94.3%	502,733	94.5%
Special mention . . . . .	14,514	3.1	16,628	3.1
Substandard . . . . .	4,924	1.0	4,062	0.8
Doubtful . . . . .	4,752	1.0	5,117	1.0
Loss . . . . .	<u>2,491</u>	<u>0.6</u>	<u>3,037</u>	<u>0.6</u>
<b>Total loans to customers . . . . .</b>	<u>472,185</u>	<u>100.0%</u>	<u>531,577</u>	<u>100.0%</u>
<b>Non-performing loan ratio<sup>(1)</sup> . . . . .</b>		2.58%		2.30%

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

## ASSETS AND LIABILITIES

	At December 31,		At June 30,	
	2005		2006	
	Amount	% of Total	Amount	% of Total
	(unaudited)			
	(in millions of RMB, except percentages)			
<b>Corporate loans<sup>(1)</sup></b>				
Normal . . . . .	274,289	58.1%	324,164	61.0%
Special mention . . . . .	12,626	2.7	13,427	2.6
Substandard . . . . .	4,816	1.0	3,913	0.7
Doubtful . . . . .	4,635	1.0	5,021	0.9
Loss . . . . .	2,256	0.4	2,749	0.5
Subtotal . . . . .	298,622	63.2%	349,274	65.7%
<b>Non-performing loan ratio<sup>(2)</sup></b> . . . . .		3.92%		3.34%
<b>Discounted bills<sup>(1)</sup></b>				
Normal . . . . .	99,515	21.1%	96,173	18.1%
Special mention . . . . .	12	—	72	—
Substandard . . . . .	—	—	—	—
Doubtful . . . . .	—	—	—	—
Loss . . . . .	—	—	—	—
Subtotal . . . . .	99,527	21.1%	96,245	18.1%
<b>Non-performing loan ratio<sup>(2)</sup></b> . . . . .		0.00%		0.00%
<b>Retail loans</b>				
Normal . . . . .	71,700	15.2%	82,396	15.5%
Special mention . . . . .	1,876	0.4	3,129	0.6
Substandard . . . . .	108	—	149	—
Doubtful . . . . .	117	—	96	—
Loss . . . . .	235	0.1	288	0.1
Subtotal . . . . .	74,036	15.7%	86,058	16.2%
<b>Non-performing loan ratio<sup>(2)</sup></b> . . . . .		0.62%		0.62%
<b>Total loans to customers</b> . . . . .	472,185	100.0%	531,577	100.0%

(1) Corporate acceptance bills that are classified as non-performing are treated as corporate loans and included in the respective categories of corporate loans for recovery management purposes. The balance of non-performing corporate acceptance bills included in corporate loans amounted to RMB124 million and RMB132 million at June 30, 2006 and December 31, 2005, respectively.

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

The non-performing loan ratio of our total loan portfolio decreased to 2.30% at June 30, 2006 from 2.58% at December 31, 2005, primarily reflecting a continued decrease in the non-performing loan ratio of our corporate loan portfolio.

The non-performing loan ratio of our corporate loan portfolio decreased to 3.34% at June 30, 2006 from 3.92% at December 31, 2005, primarily reflecting decreases in the non-performing loan ratios of our working capital loans and fixed asset loans, partially offset by an increase in the non-performing loan ratio of our trade finance loans. The improvement in the non-performing loan ratios of our working capital loans and fixed asset loans was primarily due to a combination of (i) the overall growth of our working capital loan and fixed asset loan portfolios, (ii) our continued recovery efforts, and (iii) write-offs of certain loans recognized in June 2006. The increase in the non-performing loan ratio of our trade finance loans was primarily due to a combination of (i) the increase in our trade finance loans in 2003 – 2005, and (ii) a decrease in the balance of our trade finance loans at June 30, 2006 compared to December 31, 2005. The increase in corporate loans classified as loss was primarily due to downgrades of doubtful or substandard loans on which we

## ASSETS AND LIABILITIES

proceeded against the collateral or on which we recovered a portion of the principal amount and determined that the remaining balance was difficult to recover.

The non-performing loan ratio of our retail loan portfolio remained stable at 0.62% at June 30, 2006, compared to the same ratio at December 31, 2005. This was due to increases in non-performing credit card balances, automobile loans and other retail loans being almost entirely offset by a decrease in the non-performing loan ratio of our residential mortgage loans. The non-performing loan ratio of our credit card balances increased at June 30, 2006 compared to December 31, 2005, although well within our risk tolerance level, primarily as a result of our efforts to expand our credit card business. The increase in the non-performing loan ratio of our automobile loans was primarily due to the continued reduction of our exposure to this product and downgrades of certain loans made in earlier years. The decrease in the non-performing loan ratio of our residential mortgage loans was primarily due to the continued growth of our residential mortgage loan portfolio and our continued collection efforts. The increase in retail loans classified as loss was primarily due to downgrades of certain residential mortgage loans as a result of the length of time for which these loans were overdue. The increase in retail loans classified as special mention was primarily attributable to downgrades of certain residential mortgage loans made in earlier years.

The increase in discounted bills classified as special mention was primarily due to downgrades of certain corporate acceptance bills, the obligors of which were also borrowers of corporate loans which we had downgraded to special mention.

### *Changes to the Asset Quality of Our Loan Portfolio*

The following table sets forth, for the six months ended June 30, 2006, the changes in the outstanding balance of our non-performing loans.

	<u>Amount</u>	<u>NPL Ratio</u>
	(unaudited)	
	(in millions of RMB, except percentages)	
<b>At December 31, 2005</b> .....	12,167	2.58%
Downgrades <sup>(1)</sup> .....	1,220	
Upgrades .....	(33)	
Recoveries .....	(1,016)	
Exchange differences .....	(37)	
Write-offs .....	(85)	
<b>At June 30, 2006</b> .....	<u>12,216</u>	2.30%

(1) Represents downgrades of loans classified as normal or special mention at December 31, 2005 and loans newly made in the six months ended June 30, 2006 to non-performing classifications.

At June 30, 2006, the balance of our non-performing loans was RMB12.2 billion, a slight increase from December 31, 2005. This was primarily due to downgrades of loans classified as normal or special mention to non-performing classifications, reflecting the overall growth in our loan portfolio in 2003 - 2005, which were substantially offset by recoveries, which primarily reflected our continued recovery efforts. Our non-performing loan ratio decreased to 2.30% at June 30, 2006 from 2.58% at December 31, 2005.

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### *Ten Largest Non-performing Borrowers*

The following table sets forth, at June 30, 2006, our borrowers with the ten largest non-performing loan balances outstanding.

At June 30, 2006					
	Industry	Amount	Classification (unaudited)	% of Total Non-Performing Loans	% of Total Regulatory Capital
(in millions of RMB, except percentages)					
Borrower A	Others	279	doubtful	2.3%	0.7%
Borrower B	Property development and investment	270	doubtful	2.2	0.6
Borrower C	Property development and investment	250	substandard	2.0	0.6
Borrower D	Property development and investment	220	doubtful	1.8	0.5
Borrower E	Trading	201	doubtful	1.7	0.5
Borrower F	Hospitality	195	loss	1.6	0.5
Borrower G	Property development and investment	193	doubtful	1.6	0.5
Borrower H	Manufacturing	180	doubtful	1.5	0.4
Borrower I	Manufacturing	150	substandard	1.2	0.4
Borrower J	Manufacturing	148	loss	1.2	0.4
Subtotal		2,086		17.1	5.1
<b>Total non-performing loans</b>		<u>12,216</u>		<u>100%</u>	<u>29.7%</u>

### *Allowance for Impairment Losses on Loans to Customers*

#### *Distribution of Allowance for Impairment Losses by Loan Classification*

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

	At December 31,			At June 30,		
	2005			2006		
	Amount	% of Total	Allowance to Loans <sup>(1)</sup>	Amount	% of Total	Allowance to Loans <sup>(1)</sup>
(in millions of RMB, except percentages)						
Performing <sup>(2)</sup>	6,135	45.4%	1.3%	7,267	48.3%	1.4%
Substandard	1,929	14.3	39.2	1,399	9.3	34.4
Doubtful	2,958	21.9	62.2	3,347	22.2	65.4
Loss	2,488	18.4	99.9	3,037	20.2	100.0
<b>Total allowance</b>	<u>13,510</u>	<u>100.0%</u>	<u>2.9%</u>	<u>15,050</u>	<u>100.0%</u>	<u>2.8%</u>

(1) 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.

(2) Performing loans consist of loans classified as normal and special mention.

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

	At December 31, 2005			At June 30, 2006		
	Amount	% of Total	Allowance to Loans <sup>(1)</sup>	Amount	% of Total	Allowance to Loans <sup>(1)</sup>
	(unaudited)					
	(in millions of RMB, except percentages)					
<b>Corporate loans<sup>(2)</sup></b>						
Performing <sup>(3)</sup> . . . . .	4,783	35.4%	1.7%	5,668	37.7%	1.7%
Substandard . . . . .	1,899	14.1	39.4	1,360	9.0	34.8
Doubtful . . . . .	2,905	21.5	62.7	3,305	21.9	65.8
Loss . . . . .	2,256	16.7	100.0	2,749	18.3	100.0
Subtotal . . . . .	11,843	87.7%	4.0	13,082	86.9	3.7
<b>Discounted bills<sup>(2)</sup></b>						
Performing <sup>(3)</sup> . . . . .	183	1.3	0.2	236	1.6	0.2
Substandard . . . . .	—	—	—	—	—	—
Doubtful . . . . .	—	—	—	—	—	—
Loss . . . . .	—	—	—	—	—	—
Subtotal . . . . .	183	1.3	0.2	236	1.6	0.2%
<b>Retail loans</b> . . . . .						
Performing <sup>(3)</sup> . . . . .	1,169	8.7	1.6	1,363	9.1	1.6
Substandard . . . . .	30	0.2	27.8	39	0.2	26.2
Doubtful . . . . .	53	0.4	45.3	42	0.3	43.8
Loss . . . . .	232	1.7	98.7	288	1.9	100.0
Subtotal . . . . .	1,484	11.0	2.0	1,732	11.5	2.0
<b>Total allowance</b> . . . . .	13,510	100.0%	2.9%	15,050	100.0%	2.8%

(1) 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.

(2) The allowance for impairment losses of non-performing corporate acceptance bills, which are treated as non-performing corporate loans for recovery management purposes, is included in the allowance for impairment losses of the respective categories of corporate loans. At June 30, 2006 and December 31, 2005, the allowance for impairment losses on these bills amounted to RMB80 million and RMB94 million, respectively.

(3) Performing loans consist of loans classified as normal and special mention.

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### *Changes to the Allowance for Impairment Losses*

The following table sets forth, at and for the six months ended June 30, 2006, the changes to the allowance for impairment losses on loans to customers.

	At and for the Six Months Ended June 30, 2006 (unaudited) (in millions of RMB)
<b>At December 31, 2005</b> .....	13,510
Charge for the six months ended June 30, 2006 <sup>(1)</sup> .....	2,123
Release for the six months ended June 30, 2006 <sup>(2)</sup> .....	(521)
Unwinding of discount <sup>(3)</sup> .....	(102)
Write-offs .....	(85)
Recoveries of loans previously written-off .....	150
Exchange differences .....	(25)
<b>At June 30, 2006</b> .....	<u>15,050</u>

(1) Represents gross provisions for impairment losses or additions to the loan loss allowance.

(2) Represents write-backs or releases from the loan loss allowance.

(3) Represents the interest income accrued on impaired loans as a result of subsequent increases in their present value due to the passage of time.

Our allowance for impairment losses at June 30, 2006 was RMB15.1 billion, an increase of 11.4% from RMB13.5 billion at December 31, 2005, primarily attributable to provisions for impairment losses made in the six months ended June 30, 2006, partially offset by releases from the allowance in this period.

We made gross provisions for impairment losses in an aggregate amount of RMB2,123 million for the six months ended June 30, 2006, primarily due to a combination of (i) the overall growth of our total loan portfolio, (ii) downgrades of loans classified as normal or special mention to non-performing classifications, and (iii) a decrease in the estimated recoverable amount on certain non-performing corporate loans that have been outstanding for considerable periods of time.

Releases from the allowance amounted to RMB521 million for the six months ended June 30, 2006, primarily attributable to recoveries on our corporate and retail non-performing loans, which reflected our continued collection efforts.

Recoveries on loans previously written off amounted to RMB150 million for the six months ended June 30, 2006, primarily attributable to recoveries on these loans in the first quarter of 2006.

Primarily as a result of the above factors, the coverage ratio of our total allowance for impairment losses to total non-performing loans increased to 123.2% at June 30, 2006 from 111.0% at December 31, 2005.

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### *Investment Securities and Other Financial Assets*

The following table sets forth, at the dates indicated, the components of our investment securities and other financial assets.

	At December 31, 2005		At June 30, 2006	
	Amount	% of Total	Amount	% of Total
	(unaudited)			
	(in millions of RMB, except percentages)			
Financial assets at fair value through profit or loss . . . . .	15,869	12.0%	9,220	6.7%
Available-for-sale financial assets . . . . .	60,086	45.6	72,614	52.7
Held-to-maturity financial assets . . . . .	48,711	36.9	48,643	35.3
Receivables . . . . .	7,236	5.5	7,233	5.3
<b>Total</b> . . . . .	<u>131,902</u>	<u>100.0%</u>	<u>137,710</u>	<u>100.0%</u>

Our total investment securities and other financial assets increased by 4.4% to RMB137.7 billion at June 30, 2006 from RMB131.9 billion at December 31, 2005, primarily due to an increase in available-for-sale financial assets, partially offset by a decrease in financial assets at fair value through profit or loss.

Available-for-sale financial assets increased by 20.9% to RMB72.6 billion at June 30, 2006 from RMB60.1 billion at December 31, 2005, primarily due to an increase in PBOC bills and, to a lesser extent, an increase in debt securities issued by PRC policy banks. PBOC bills in our available-for-sale financial assets increased by 45.3% to RMB39.9 billion at June 30, 2006 from RMB27.5 billion at December 31, 2005. A significant portion of the increase in PBOC bills reflected our preference for their liquidity in a rising interest rate environment and our increased funding from customer deposits, while the remaining portion of the increase was in response to the PBOC's measures to restrain the growth of lending. Debt securities issued by PRC policy banks increased by 13.3% to RMB11.0 billion at June 30, 2006 from RMB9.8 billion at December 31, 2005, reflecting our increased funding from customer deposits.

Financial assets at fair value through profit or loss decreased by 41.9% to RMB9.2 billion at June 30, 2006 from RMB15.9 billion at December 31, 2005, primarily due to a decrease in our trading assets and, to a lesser extent, a decrease in financial assets designated at fair value through profit or loss. We reduced our trading assets by 56.9% to RMB4.4 billion at June 30, 2006 from RMB10.1 billion at December 31, 2005, primarily due to adverse market conditions attributable to increased interest rates in the PRC. The decrease in financial assets designated at fair value through profit or loss was primarily due to the redemption of PRC government bonds at maturity.

Our held-to-maturity financial assets and receivables remained effectively stable at June 30, 2006 compared to December 31, 2005.



## ASSETS AND LIABILITIES

### Liabilities and Sources of Funds

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

	At December 31,		At June 30,	
	2005		2006	
	Amount	% of Total	Amount	% of Total
	(unaudited)			
	(in millions of RMB, except percentages)			
Deposits from customers . . . . .	634,404	89.5%	703,602	88.9%
Deposits from banks and other financial institutions . . . . .	39,673	5.6	58,954	7.4
Placements from banks and other financial institutions . . . . .	3,574	0.5	977	0.1
Certificates of deposit issued . . . . .	1,211	0.2	1,199	0.2
Convertible bonds issued . . . . .	5,184	0.7	39	—
Subordinated notes issued . . . . .	3,500	0.5	3,500	0.4
Fixed-term notes issued . . . . .	9,982	1.4	9,985	1.3
Others <sup>(1)</sup> . . . . .	11,087	1.6	13,317	1.7
<b>Total liabilities . . . . .</b>	<b>708,615</b>	<b>100.0%</b>	<b>791,573</b>	<b>100.0%</b>

(1) Consists of financial liabilities at fair value through profit or loss, current taxation and other liabilities.

Our total liabilities increased by 11.7 % to RMB791.6 billion at June 30, 2006 from RMB708.6 billion at December 31, 2005, primarily due to an increase in deposits from customers and, to a lesser extent, an increase in deposits from banks and other financial institutions.

### Deposits from Customers

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

	<u>At December 31,</u>		<u>At June 30,</u>	
	<u>2005</u>		<u>2006</u>	
	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>
	<u>(unaudited)</u>			
	(in millions of RMB, except percentages)			
<b>Corporate deposits<sup>(1)</sup></b>				
Demand .....	219,230	34.6%	233,019	33.1%
Time .....	<u>159,245</u>	<u>25.1</u>	<u>183,808</u>	<u>26.1</u>
Subtotal .....	<u>378,475</u>	<u>59.7</u>	<u>416,827</u>	<u>59.2</u>
<b>Retail deposits</b>				
Demand .....	118,566	18.7	132,296	18.8
Time .....	<u>137,363</u>	<u>21.6</u>	<u>154,479</u>	<u>22.0</u>
Subtotal .....	<u>255,929</u>	<u>40.3</u>	<u>286,775</u>	<u>40.8</u>
<b>Total deposits from customers</b> .....	634,404	100.0%	703,602	100.0%

(1) Consists of deposits from corporate customers, government authorities and other organizations.

Our total deposits increased by 10.9% to RMB703.6 billion at June 30, 2006 from RMB634.4 billion at December 31, 2005. Corporate deposits increased by 10.1% to RMB416.8 billion at June 30, 2006 from RMB378.5 billion at December 31, 2005, and retail deposits increased by 12.1% to

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RMB286.8 billion at June 30, 2006 from RMB255.9 billion at December 31, 2005. These increases reflected the continued expansion of our branch network and our continued marketing efforts as well as the continued growth of the Chinese economy.