

Consolidated Financial Statement

Consolidated Profit and Loss Account

(All amounts expressed in millions of RMB unless otherwise stated.)

Group

	Note	For the year ended 31 December	
		2006	2005
Interest income		64,543	49,680
Interest expense		(24,740)	(18,089)
Net interest income	4	39,803	31,591
Fee and commission income		3,476	2,544
Fee and commission expense		(603)	(435)
Net fee and commission income		2,873	2,109
Dividend income	5	123	45
Gains less losses arising from trading activities	6	(57)	420
Gains less losses arising from de-recognition of investment securities	19	58	359
Other operating income	7	1,038	629
Impairment losses on loans and advances	8	(5,538)	(4,298)
Other operating expenses	9	(20,895)	(18,012)
Operating profit before tax		17,405	12,843
Income tax	12	(5,136)	(3,600)
Net profit for the year		12,269	9,243
Attributable to:			
Shareholders of the Bank		12,274	9,249
Minority interest		(5)	(6)
		12,269	9,243
Basic and diluted earnings per share (in RMB)	13	0.27	0.22

The accompanying notes presented on pages 89 to 192 form an integral part of these consolidated financial statements.

Consolidated Financial Statement

Consolidated Balance Sheet

(All amounts expressed in millions of RMB unless otherwise stated.)

Group

	Note	As at 31 December	
		2006	2005
ASSETS			
Cash and balances with central banks	14	253,941	140,309
Due from other banks and financial institutions	15	118,623	170,101
Financial assets held for trading	16	12,995	3,228
Loans and advances to customers	18	910,307	758,773
Investment securities — loans and receivables	19	48,050	28,372
Investment securities — available-for-sale	19	339,823	285,971
Property and equipment	20	26,284	25,164
Deferred tax assets	26	3,520	955
Other assets	21	5,940	10,566
Total assets		1,719,483	1,423,439
LIABILITIES			
Due to other banks and financial institutions	22	168,666	84,094
Financial liabilities held for trading	23	8,724	9,555
Due to customers	24	1,420,331	1,220,839
Other liabilities	25	16,151	12,349
Current taxes		2,501	751
Deferred tax liabilities	26	323	413
Subordinated term debt	28	12,292	12,292
Total liabilities		1,628,988	1,340,293
EQUITY			
Capital and reserves attributable to the Bank's shareholders			
Share capital	29	45,804	45,804
Capital surplus	29	21,540	21,540
Other reserves		10,364	6,555
Retained earnings		12,728	9,183
		90,436	83,082
Minority Interest		59	64
Total equity		90,495	83,146
Total equity and liabilities		1,719,483	1,423,439

These consolidated financial statements were approved for issue by the Board of Directors on 8 March 2007 and signed on its behalf by:

Chairman of Board: Jiang Chaoliang

Chief Financial Officer: Yu Yali

The accompanying notes presented on pages 89 to 192 form an integral part of these consolidated financial statements.

Consolidated Financial Statement

Balance Sheet

(All amounts expressed in millions of RMB unless otherwise stated.)

Bank

	Note	As at 31 December	
		2006	2005
ASSETS			
Cash and balances with central banks	14	253,191	140,029
Due from other banks and financial institutions	15	118,623	170,101
Financial assets held for trading	16	12,995	3,228
Loans and advances to customers	18	910,307	758,773
Investment securities — loans and receivables	19	48,050	28,372
Investment securities — available-for-sale	19	339,110	285,658
Investments in and due from subsidiaries		1,344	786
Property and equipment	20	25,077	23,681
Deferred tax assets	26	3,520	955
Other assets	21	5,122	10,264
Total assets		1,717,339	1,421,847
LIABILITIES			
Due to other banks and financial institutions	22	168,666	84,094
Financial liabilities held for trading	23	8,724	9,555
Due to customers	24	1,420,331	1,220,839
Other liabilities	25	13,831	10,505
Current taxes		2,497	751
Deferred tax liabilities	26	227	289
Subordinated term debt	28	12,292	12,292
Total liabilities		1,626,568	1,338,325
EQUITY			
Capital and reserves attributable to the Bank's shareholders			
Share capital	29	45,804	45,804
Capital surplus	29	22,432	22,432
Other reserves		9,900	6,150
Retained earnings		12,635	9,136
Total equity		90,771	83,522
Total equity and liabilities		1,717,339	1,421,847

The accompanying notes presented on pages 89 to 192 form an integral part of these consolidated financial statements.

Consolidated Financial Statement

Consolidated Statement of Changes in Shareholders' Equity

(All amounts expressed in millions of RMB unless otherwise stated.)

	Share capital	Capital surplus	Other reserves				Retained earnings/ (Accumulated losses)	Minority interest	Total	
			Statutory reserve	Statutory general reserve	Revaluation reserve for AFS securities	Revaluation reserve for properties				Translation reserve on foreign operations
	Note 29	Note 29	Note 30	Note 30			Note 30, 31			
Balance at 1 January 2005	39,070	10,872	—	—	(1,272)	3,579	—	(146)	—	52,103
Gains from changes in fair value										
of AFS securities, net of tax	—	—	—	—	3,875	—	—	—	—	3,875
Revaluation of property	—	—	—	—	—	541	—	—	—	541
Translation difference on foreign operations	—	—	—	—	—	—	(88)	—	—	(88)
Establishment of new subsidiary	—	—	—	—	—	—	—	—	70	70
Revaluation reserve realization upon disposals	—	—	—	—	—	(80)	—	80	—	—
Net income/(expense) recognized directly in equity	—	—	—	—	3,875	461	(88)	80	70	4,398
Net profit	—	—	—	—	—	—	—	9,249	(6)	9,243
Issue of shares	6,734	11,259	—	—	—	—	—	—	—	17,993
Issuance cost	—	(591)	—	—	—	—	—	—	—	(591)
Balance at 31 December 2005	45,804	21,540	—	—	2,603	4,040	(88)	9,183	64	83,146
Balance at 1 January 2006	45,804	21,540	—	—	2,603	4,040	(88)	9,183	64	83,146
Losses from changes in fair value of AFS securities, net of tax	—	—	—	—	(1,736)	—	—	—	—	(1,736)
Revaluation of property	—	—	—	—	—	605	—	—	—	605
Translation difference on foreign operations	—	—	—	—	—	—	(125)	—	—	(125)
Realisation of revaluation reserve upon disposals	—	—	—	—	—	(262)	—	262	—	—
Net income/(expense) recognized directly in equity	—	—	—	—	(1,736)	343	(125)	262	—	(1,256)
Net profit	—	—	—	—	—	—	—	12,274	(5)	12,269
Dividends	—	—	—	—	—	—	—	(3,664)	—	(3,664)
Transfer to reserves	—	—	899	4,428	—	—	—	(5,327)	—	—
Balance at 31 December 2006	45,804	21,540	899	4,428	867	4,383	(213)	12,728	59	90,495

The accompanying notes presented on pages 89 to 192 form an integral part of these consolidated financial statements.

Consolidated Financial Statement

Consolidated Statement of Cash Flows

(All amounts expressed in millions of RMB unless otherwise stated.)

	For the year ended	
	31 December	
	2006	2005
Cash flows from operating activities:		
Net profit before taxation:	17,405	12,843
Adjustments for:		
Impairment of loans and advances to customers	5,748	4,549
Write-back of due from banks and financial institutions	(117)	(149)
Impairment of other receivables	311	327
Depreciation of property and equipment	2,501	2,364
Revaluation of property and equipment	41	9
Amortization of prepaid staff subsidies	118	38
Amortization of prepaid rental expenses	180	179
Amortization of land use rights	3	5
Amortization of computer software	136	105
Gains less losses arising from de-recognition of investment securities	(58)	(359)
Gains on disposal of fixed assets	(54)	(66)
Increase in the fair value of investment property	(16)	(46)
Losses on disposal of investment property	5	—
Accrued interest expense on subordinated term debt	636	557
Net increase in mandatory reserve deposits	(30,774)	(11,639)
Net decrease/(increase) in due from other banks and financial institutions	53,155	(55,578)
Net increase in financial assets held for trading	(9,767)	(733)
Net increase in loans and advances to customers	(157,282)	(131,710)
Net decrease in other assets	3,613	5,179
Net increase in due to other banks and financial institutions	84,572	52,383
Net (decrease)/increase in financial liabilities held for trading	(831)	4,469
Net increase in due to customers	199,492	190,898
Net decrease/(increase) in other liabilities	1,548	(352)
Net increase in business tax payable	125	161
Income tax paid	(5,389)	(215)
Net cash from operating activities	165,301	73,219

Consolidated Financial Statement

Consolidated Statement of Cash Flows (Continued)

(All amounts expressed in millions of RMB unless otherwise stated.)

	For the year ended	
	2006	2005
Cash flows from investing activities:		
Purchase of investment securities	(486,037)	(408,379)
Disposal or redemption of investment securities	409,933	346,965
Acquisition of intangible assets	(164)	(145)
Prepaid rental expenses	(145)	(172)
Purchase of land use rights	—	(72)
Disposal of land use rights	13	108
Purchase of property and equipment	(3,258)	(3,513)
Disposal of property and equipment	490	610
Disposal of investment property	586	—
Net cash used in investing activities	(78,582)	(64,598)
Cash flows from financing activities:		
Issue of shares	—	17,402
Interest paid on subordinated term debt	(636)	(540)
Minority interest — capital contribution	—	70
Dividends paid	(1,665)	(5)
Net cash (used in)/from financing activities	(2,301)	16,927
Net increase in cash and cash equivalents	84,418	25,548
Cash and cash equivalents at the beginning of the period	101,305	75,757
Cash and cash equivalents at the end of the period (Note 35)	185,723	101,305
Major non-cash transactions		
Capitalization of translation difference on foreign operations	125	88
Transfer from fixed assets to other assets	19	—
Supplementary Information		
Interest received	63,798	49,120
Interest paid	(23,405)	(16,122)

The accompanying notes presented on pages 89 to 192 form an integral part of these consolidated financial statements.