

ASSETS AND LIABILITIES

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

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Our total assets increased by 18.9% to RMB 706,723 million as of December 31, 2006 compared to RMB 594,602 million as of December 31, 2005, which increased by 20.0% compared to RMB 495,445 million as of December 31, 2004. The growth from December 31, 2004 to December 31, 2006 was primarily due to the growth in loans and advances to customers and investments. The following table sets forth, as of the dates indicated, the components of our total assets.

	As of December 31,					
	2004		2005		2006	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Loans and advances to customers, total	306,879	—	370,260	—	463,167	—
Allowance for impairment	(14,958)	—	(12,230)	—	(9,786)	—
Loans and advances to customers, net	291,921	58.9%	358,030	60.2%	453,381	64.2%
Investments	110,903	22.4	104,416	17.6	104,424	14.8
Cash and balances with central bank	54,253	11.0	84,453	14.2	90,620	12.8
Amounts due from banks and other financial institutions, net ⁽¹⁾	20,899	4.2	31,352	5.3	43,250	6.1
Other assets ⁽²⁾	17,469	3.5	16,351	2.7	15,048	2.1
Total assets	495,445	100.0%	594,602	100.0%	706,723	100.0%

(1) Net of allowances for impairment losses in the amounts of RMB 305 million, RMB 342 million and RMB 469 million as of December 31, 2006, 2005 and 2004, respectively.

(2) Consists of property and equipment, deferred tax assets, interest receivables, repossessed assets, positive fair value of derivatives, land use rights, intangible assets and others.

Since 2001, CITIC Group has taken a number of measures to strengthen our capital adequacy. In 2006, 2005 and 2004, we received capital contributions of RMB 7.4 billion, RMB 8.6 billion and RMB 2.5 billion, respectively, from CITIC Group. In addition, in 2004 and 2006, we issued subordinated debt and bonds, respectively, each with an aggregate face value of RMB 6.0 billion. As of December 31, 2006, our capital adequacy and core capital adequacy ratios were 9.41% and 6.57%, respectively.

In June 2006, we sold related party loans with an aggregate outstanding principal amount of RMB 3,142 million, including (i) performing related party loans lent to CITIC Group, a corporate customer in the financing industry, with an aggregate outstanding principal amount of RMB 2,000 million to a third party for the same amount in cash; and (ii) through public auction, non-performing related party loans lent to certain subsidiaries of CITIC Group with an aggregate outstanding principal amount of RMB 1,142 million or of RMB 417 million at net book value. These non-performing related party loans were sold at net book value for cash. For a distribution of the non-performing related party loans sold, see “— Asset Quality of Our Loan Portfolio — Distribution of Financial Restructuring-related Non-performing Loans”. Approximately RMB 12.1 million of impairment provisions were released and no gain or loss was realized as a result of such sales. In 2006, we collected non-performing related party loans with an aggregate outstanding amount of RMB 22 million. As a result of the foregoing, our total related party loans outstanding decreased to RMB 2,273 million as of December 31, 2006 from RMB 5,574 million as of December 31, 2005. Our total non-performing related party loans decreased to nil as of December 31, 2006 from RMB 1,164 million as of

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December 31, 2005, and our non-performing related party loan ratio decreased to nil as of December 31, 2006 from 20.9% as of December 31, 2005.

Loans and Advances to Customers

The category of loans and advances to customers represents the largest component of our total assets. Our loans and advances to customers, net of the allowance for impairment losses, represented 64.2%, 60.2% and 58.9% of our total assets as of December 31, 2006, 2005 and 2004, respectively.

Our total loans and advances to customers increased by 25.1% to RMB 463,167 million as of December 31, 2006 compared to RMB 370,260 million as of December 31, 2005, which increased by 20.7% compared to RMB 306,879 million as of December 31, 2004.

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

Distribution of Loans by Product Type

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

	As of December 31,					
	2004		2005		2006	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Corporate loans	256,422	83.6%	282,275	76.3%	369,156	79.7%
Discounted bills	18,727	6.1	50,151	13.5	45,636	9.9
Personal loans	31,730	10.3	37,834	10.2	48,375	10.4
Total loans and advances to customers	<u>306,879</u>	<u>100.0%</u>	<u>370,260</u>	<u>100.0%</u>	<u>463,167</u>	<u>100.0%</u>

Corporate loans have been historically the largest component of our total loans. Personal loans continued to increase from December 31, 2004 to December 31, 2006 as a result of our efforts to expand our personal banking business.

Corporate Loans

Corporate loans represented 79.7%, 76.3%, and 83.6% of our total loans to customers as of December 31, 2006, 2005 and 2004, respectively. The following table sets forth, as of the dates indicated, our corporate loans by maturity and product type.

	As of December 31,					
	2004		2005		2006	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Short-term loans	162,005	63.2%	182,606	64.7%	228,245	61.8%
Medium- and long-term loans	94,417	36.8	99,669	35.3	140,911	38.2
Total corporate loans	<u>256,422</u>	<u>100.0%</u>	<u>282,275</u>	<u>100.0%</u>	<u>369,156</u>	<u>100.0%</u>

Our corporate loans increased by 30.8% to RMB 369,156 million as of December 31, 2006 from RMB 282,275 million as of December 31, 2005, as we began to extend new loans to targeted customers which we developed in our targeted industries. Our corporate loans increased by 10.1% to RMB 282,275 million as of December 31, 2005 from RMB 256,422 million as of December 31, 2004. We believe that the growth rate

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from 2005 to 2006 was higher compared to the growth rate from 2004 to 2005 because (i) in 2006, we increased our lending to certain industries supported by PRC Government policies, such as transportation, storage and post service, and production and supply of electric power, gas and water, (ii) in 2005, in accordance with PRC Government's macroeconomic policies, we refrained from extending new corporate loans to industries which we believe have high risk of defaulting or production over-capacity, and (iii) in 2005 we actively increased position in discounted bills, which generally has a lower asset risk weighting than corporate loans.

Discounted Bills

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

	As of December 31,					
	2004		2005		2006	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Bank acceptance bills	13,266	70.8%	43,775	87.3%	39,554	86.7%
Commercial acceptance bills	5,461	29.2	6,376	12.7	6,082	13.3
Total discounted bills	<u>18,727</u>	<u>100.0%</u>	<u>50,151</u>	<u>100.0%</u>	<u>45,636</u>	<u>100.0%</u>

Discounted bills are an important component of our total loan portfolio as well as an important instrument to manage our liquidity. Discounted bills decreased by 9.0% to RMB 45,636 million as of December 31, 2006 from RMB 50,151 million as of December 31, 2005 reflected our increased position in higher-yielding asset categories, such as corporate loans and personal loans.

Discounted bills increased by 167.8% to RMB 50,151 million as of December 31, 2005 from RMB 18,727 million as of December 31, 2004, reflecting, among others, our efforts to actively increase our position in discounted bills as the money market interest rate decreased in 2005.

Generally, bank acceptance bills have lower non-performing loan ratios than commercial acceptance bills. Accordingly, we have sought to increase bank acceptance bills as a percentage of total discounted bills outstanding. As a result, we increased bank acceptance bills as a percentage of total discounted bills from 70.8% as of December 31, 2004 to 87.3% as of December 31, 2005 and 86.7% as of December 31, 2006.

Personal Loans

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

	As of December 31,					
	2004		2005		2006	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Residential mortgage loans	17,838	56.2%	26,246	69.3%	36,470	75.4%
Individual commercial loans	7,372	23.2	6,162	16.3	5,863	12.1
Personal consumption loans	4,733	14.9	3,971	10.5	3,951	8.2
Credit card advances	208	0.7	447	1.2	1,280	2.7
Education loans	105	0.3	150	0.4	457	0.9
Personal automobile loans	1,474	4.7	858	2.3	354	0.7
Total personal loans	<u>31,730</u>	<u>100.0%</u>	<u>37,834</u>	<u>100.0%</u>	<u>48,375</u>	<u>100.0%</u>

Personal loans increased by 27.9% to RMB 48,375 million as of December 31, 2006 from RMB 37,834 million as of December 31, 2005, which increased by 19.2% from RMB 31,730 million as of December 31, 2004, reflecting, among others, our increasing focus on expanding our personal banking business.

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We seek to improve the composition of our personal loan portfolio while expanding our personal loan business. Our residential mortgage loans, which has historically had a relatively low non-performing loan ratio, increased by 39.0% to RMB 36,470 million as of December 31, 2006 from RMB 26,246 million as of December 31, 2005, which increased by 47.1% from RMB 17,838 million as of December 31, 2004. The increase reflected, among others, an increase in market demand and our increasing efforts to expand our residential mortgage loans business. Our credit card advances, as a percentage of our total personal loans, increased from December 31, 2004 through December 31, 2006, primarily reflecting our increased efforts to expand our credit card business. Each of individual commercial loans, personal consumption loans and personal automobile loans, as a percentage of our total personal loans, was lower as of December 31, 2006 compared to as of December 31, 2004, reflecting, among others, our efforts to restrict our lending policies on these loans which generally have higher risks.

Distribution of Corporate Loans by Industry

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

	As of December 31,					
	2004		2005		2006	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Manufacturing						
Iron and steel	8,935	3.5%	11,890	4.2%	16,636	4.5%
Telecommunications equipment, software and other electronic equipment	5,873	2.3	6,826	2.4	9,007	2.4
Transportation equipment	6,733	2.6	7,095	2.5	8,666	2.4
Textile	5,207	2.0	6,267	2.2	7,866	2.1
Others	44,499	17.4	49,459	17.6	66,364	18.0
Subtotal	71,247	27.8%	81,537	28.9%	108,539	29.4%
Production and supply of electric power, gas and water	23,825	9.3%	26,559	9.4%	38,022	10.3%
Transportation, storage and post service	22,459	8.8	23,633	8.4	35,933	9.7
Wholesale and retail	26,023	10.1	29,902	10.5	33,468	9.1
Real estate	27,640	10.8	22,957	8.1	28,796	7.8
Water, environment and public utility management	18,109	7.1	20,811	7.4	26,915	7.3
Rent and business services	14,538	5.7	18,566	6.6	29,375	8.0
Construction	13,980	5.5	15,963	5.7	23,364	6.3
Financing	7,376	2.9	9,188	3.3	3,107	0.8
Public management and social organizations	5,748	2.2	7,858	2.8	10,468	2.8
Others ⁽¹⁾	25,477	9.8	25,301	8.9	31,169	8.5
Total corporate loans	256,422	100.0%	282,275	100.0%	369,156	100.0%

(1) Primarily consists of farming, forestry, husbandry and fishing, mining, hotels and restaurants, residential services, education, health care, social security and social welfare, culture, sports and entertainment, telecommunications, and international organizations. Also includes loans extended by our Hong Kong operations.

The aggregate amount of loans to borrowers in our five largest industries in terms of aggregate loan exposure represented 66.5%, 65.3% and 66.8% of our total corporate loans as of December 31, 2006, 2005 and 2004, respectively. In an effort to further enhance our overall asset quality, we focused on enhancing the mix of our loan portfolio in 2004 and began to develop our credit policy focusing on “high quality industries and high quality enterprises” and “mainstream markets and mainstream customers” in 2005. Our loans to the production and supply of electric power, gas and water industry, which we have historically experienced a lower non-performing loan ratio than average, as a percentage of total corporate loans, increased to 10.3% as of December 31, 2006 from 9.4% as of December 31, 2005, which increased from 9.3% as of December 31, 2004. On the other hand, consistent with our credit policy, we restricted our lending to the real estate industry.

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Loans to the real estate industry, as a percentage of our total corporate loans, decreased from 10.8% as of December 31, 2004 to 8.1% as of December 31, 2005 and 7.8% as of December 31, 2006. For our historical non-performing loan data by industry, see “—Asset Quality of Our Loan Portfolio—Distribution of Corporate Non-performing Loans by Industry”.

Distribution of Corporate Loans by Legal Form of Borrowers

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

	As of December 31,					
	2004		2005		2006	
	Amount	% of total	Amount	% of total	Amount	% of total
Joint-stock enterprises	119,369	46.6%	130,157	46.1%	166,490	45.1%
State-owned enterprises ⁽¹⁾	84,252	32.8	100,738	35.7	131,954	35.7
Foreign invested enterprises	27,171	10.6	27,040	9.6	39,048	10.6
Private enterprises	11,662	4.5	13,636	4.8	18,162	4.9
Collectively-controlled enterprises	6,386	2.5	4,480	1.6	5,721	1.6
Others	7,582	3.0	6,224	2.2	7,781	2.1
Total corporate loans	<u>256,422</u>	<u>100.0%</u>	<u>282,275</u>	<u>100.0%</u>	<u>369,156</u>	<u>100.0%</u>

(1) Including RMB 5,565 million, RMB 3,566 million and RMB 1,933 million of non-performing loans as of December 31, 2004, 2005 and 2006, respectively.

Distribution of Loans by Geographical Region

We classify loans geographically based on the location of the branch that originated the loan. There is generally a high correlation between the location of the borrower and the location of the branch that originated the loan, except in the case of our head office, which originates or manages loans to certain key borrowers in all geographical regions of China. The following table sets forth, as of the dates indicated, the distribution of our loan portfolio by geographical region. For definitions of our geographical regions, see “Definitions and Conventions.”

	As of December 31,					
	2004		2005		2006	
	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)						
Yangtze River Delta	91,672	29.9%	120,026	32.4%	146,784	31.7%
Bohai Rim ⁽¹⁾	100,195	32.6	115,706	31.2	138,310	29.9
Pearl River Delta and West Strait	49,491	16.1	52,885	14.3	68,230	14.7
Central	27,477	9.0	36,255	9.8	46,704	10.1
Western	27,943	9.1	32,029	8.7	43,820	9.5
Northeastern	9,880	3.2	13,207	3.6	19,141	4.1
Hong Kong	221	0.1	152	0.0	178	0.0
Total loans to customers	<u>306,879</u>	<u>100.0%</u>	<u>370,260</u>	<u>100.0%</u>	<u>463,167</u>	<u>100.0%</u>

(1) Includes the head office.

We have historically focused on the most economically developed regions along China’s eastern coastal regions, such as the Yangtze River Delta, the Bohai Rim region and the Pearl River Delta. As of December 31, 2006, 2005 and 2004, the aggregate amount of loans originated in these three regions as a percentage of our total loans and advances to customers were 76.3%, 77.9% and 78.6%, respectively.

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Distribution of Corporate Loans by Size

The following table sets forth, as of December 31, 2006, the distribution of the outstanding amounts of our corporate loans by size.

	As of December 31, 2006	
	Amount	% of total
	(in millions of RMB, except percentages)	
RMB 10 million or less	23,871	6.5%
Over RMB 10 million to RMB 50 million	100,367	27.2
Over RMB 50 million to RMB 100 million	44,301	12.0
Over RMB 100 million	200,617	54.3
Total corporate loans	369,156	100.0%

Distribution of Loans by Collateral

The following table sets forth, as of the dates indicated, the distribution of our loan portfolio by the type of collateral. If a loan is secured by more than one form of security interest, we allocate the loan to the form of collateral considered to have lower risk. We generally consider monetary assets to have lower risk than other tangible assets, which in turn have lower risk than guarantees.

	As of December 31,					
	2004		2005		2006	
	Amount	% of subtotal	Amount	% of subtotal	Amount	% of subtotal
(in millions of RMB, except percentages)						
Corporate loans						
Loans secured by monetary assets	33,302	13.0%	35,211	12.5%	35,264	9.6%
Loans secured by tangible assets, other than monetary assets	37,446	14.6	43,480	15.4	64,452	17.4
Guaranteed loans	103,255	40.3	111,792	39.6	141,318	38.3
Unsecured loans	82,419	32.1	91,792	32.5	128,122	34.7
Subtotal	256,422	100.0%	282,275	100.0%	369,156	100.0%
Personal loans						
Loans secured by monetary assets	1,398	4.4%	1,452	3.9%	2,033	4.2%
Loans secured by tangible assets, other than monetary assets	27,195	85.7	34,365	90.8	44,050	91.0
Guaranteed loans	2,916	9.2	1,556	4.1	1,003	2.1
Unsecured loans	221	0.7	461	1.2	1,289	2.7
Subtotal	31,730	100.0%	37,834	100.0%	48,375	100.0%
Discounted bills	18,727	100.0%	50,151	100.0%	45,636	100.0%
Total loans to customers	306,879		370,260		463,167	

Loans secured by tangible assets or guarantees and discounted bills represented in aggregate 72.1%, 75.1% and 73.1% of our total loan portfolio as of December 31, 2006, 2005 and 2004, respectively. Guaranteed loans are generally not secured by any assets of the guarantors. Accordingly, we have increasingly required our borrowers to secure loans with tangible assets. As a result, guaranteed loans excluding discounted bills as a percentage of total loans excluding discounted bills decreased to 34.1% as of December 31, 2006 from 36.8% as of December 31, 2004.

As part of our “high quality industries and high quality enterprises” and “mainstream markets and mainstream customers” strategy, we generally extend unsecured loans only to customers which we believe

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have superior credit profiles. We identify these customers and industries in our credit policy, which is updated annually. Applications from these customers undergo the same credit approval procedures as those of other applicants. As a reflection of our improved ability in identifying these customers, the non-performing loan ratio of our unsecured loans outstanding as of December 31, 2006 was 1.6%, compared to 2.5% for our overall portfolio as of that date.

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. We define a single borrower as a distinct legal entity. Accordingly, a borrower may be an affiliate of another one. The following table sets forth, as of December 31, 2006, the loans to our ten largest single borrowers, all of which were classified as “normal” according to our five-category classification as of that date.

		As of December 31, 2006		
Industry	Amount	% of total loans	% of regulatory capital ⁽¹⁾	
		(in millions of RMB, except percentages)		
Borrower A	Telecommunications	3,000	0.7%	6.7%
Borrower B	Transportation, storage and post service	2,425	0.5	5.5
Borrower C	Production and supply of electric power, gas and water	2,360	0.5	5.3
Borrower D	Production and supply of electric power, gas and water	2,300	0.5	5.2
Borrower E	Construction	2,068	0.5	4.6
Borrower F	Transportation, storage and post service	2,000	0.4	4.5
Borrower G	Transportation, storage and post service	1,871	0.4	4.2
Borrower H	Rent and business service	1,850	0.4	4.2
Borrower I	Transportation, storage and post service	1,760	0.4	4.0
Borrower J	Production and supply of electric power, gas and water	1,500	0.3	3.4
Total		21,134	4.6%	47.6%

(1) Represents loan amounts as a percentage of our regulatory capital, calculated in accordance with statutory requirements under PRC GAAP. For a calculation of our regulatory capital as of December 31, 2006, see “Financial Information — Capital Resources — Capital Adequacy.”

The applicable PRC banking guidelines recommend commercial banks to limit loans to any group borrower to no more than 15% of their regulatory capital. Our credit risk management policies and procedures are consistent with these guidelines. In addition, we have implemented policies and procedures with a view to identifying group borrower applicants in our credit extension process. See “Risk Management — Credit Risk Management — Credit Risk Management for Corporate Loans — Credit Origination and Analysis”. See, however, “Risk Factors — Risks Relating to Our Business — Our business is highly dependent on the proper functioning and improvement of our information technology infrastructure”. Loans to our ten largest group borrowers accounted for an aggregate of 50.5% of our regulatory capital as of December 31, 2006, and loans to our largest group borrower accounted for 6.9% of our regulatory capital as of that date. As of December 31, 2006, our loans to CITIC Group, our controlling shareholder, totaled RMB 2,273 million, representing 0.5% of our total loans.

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The following table sets forth, as of December 31, 2006, the loans to our ten largest group borrowers, all of which were performing loans as of that date.

<u>Industry</u>	<u>As of December 31, 2006</u>		
	<u>Amount</u>	<u>% of total loans</u>	<u>% of regulatory capital⁽¹⁾</u>
	(in millions of RMB, except percentages)		
Borrower A Telecommunications	3,055	0.7%	6.9%
Borrower B Transportation, storage and post service	3,045	0.7	6.9
Borrower C Transportation, storage and post service	2,425	0.5	5.5
Borrower D Production and supply of electric power, gas and water	2,360	0.5	5.3
Borrower E Production and supply of electric power, gas and water	2,300	0.5	5.1
Borrower F Financing	2,273	0.5	5.1
Borrower G Transportation, storage and post service	2,000	0.4	4.5
Borrower H Production and supply of electric power, gas and water	1,800	0.4	4.1
Borrower I Manufacturing	1,649	0.3	3.7
Borrower J Production and supply of electric power, gas and water	1,500	0.3	3.4
Total	<u>22,407</u>	<u>4.8%</u>	<u>50.5%</u>

(1) Represents loan amounts as a percentage of our regulatory capital, calculated in accordance with statutory requirements under PRC GAAP. For a calculation of our regulatory capital as of December 31, 2006, see “Financial Information — Capital Resources — Capital Adequacy.”

All of the loans to our ten largest single borrowers and ten largest group borrowers as of December 31, 2006 were performing loans. Consistent with our accounting policies, we made provisions for these loans on a collective assessment basis. See “Financial Information — Significant Accounting Policies — Allowance for Impairment Losses on Loans and Advances”.

Maturity Profile of Loan Portfolio

The following table sets forth, as of December 31, 2006, our loan products by remaining maturity.

	<u>As of December 31, 2006</u>				
	<u>Due less than one year</u>	<u>Due between one to five years</u>	<u>Due more than five years</u>	<u>Overdue and others⁽¹⁾</u>	<u>Total</u>
	(in millions of RMB)				
Corporate loans	237,727	84,932	34,983	11,514	369,156
Discounted bills	45,636	—	—	—	45,636
Personal loans	9,023	11,939	25,187	2,226	48,375
Total loans to customers	<u>292,386</u>	<u>96,871</u>	<u>60,170</u>	<u>13,740</u>	<u>463,167</u>

(1) Includes loans on which the whole or part of the principals is overdue, or interest is overdue for more than 90 days but for which principal was not yet due.

As of December 31, 2006, 63.1% of our total loans to customers were short-term loans, or those due in less than one year. Short-term corporate loans, which primarily consist of working capital loans, represent a majority of our corporate loan portfolio. All of our discounted bills are short-term and are due within six months. A majority of our personal loans had a term of one year or more, primarily because the largest component of our personal loans consisted of mortgage loans, which are generally longer term loans.

Loan Interest Rate Profile

Interest rates have historically been highly regulated in China and are becoming more market based. Since January 1, 2004, under applicable PRC Government regulations, banks have been allowed to negotiate interest rates on newly-extended RMB-denominated loans with a maturity longer than one year, which may

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bear either fixed interest rate or floating interest rates that may be adjusted on a monthly, quarterly or annual basis. A majority of our RMB-denominated loans with a maturity of one year or less bear fixed interest rates and a majority of our RMB-denominated loans with a maturity of more than one years bear floating interest rates.

Since March 17, 2005, the PBOC discontinued preferential rates for mortgage loans, and banks have been allowed to negotiate interest rates on RMB-denominated residential mortgage loans above minimum rates. Since that date, we have negotiated the procedures and frequencies for the adjustment of interest rates on all newly-extended mortgage loans.

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 based on the CBRC guidelines. See “Regulation and Supervision — PRC Regulation and Supervision — Loan Classification, Allowances and Write-offs — Loan Classification” and “— Loan Allowances”. The loan classification information presented in this section is presented as if we had classified our loans on a consistent basis as of December 31, 2004, 2005 and 2006.

Loan Classification Criteria

We started to assess impairment and making provisions for loans using the impairment concept under IAS 39 since 2005. Information relating to impairment and provisions is provided as if we had conducted such assessment on a consistent basis for the three years ended December 31, 2006. We apply a series of criteria based on CBRC guidelines to determine the classification of our loan portfolio. These criteria are designed to assess the likelihood of timely and full repayment by the borrower. Our loan classification criteria focus on a number of factors, including: (i) the borrower’s ability to repay the loan; (ii) the borrower’s repayment history; (iii) the borrower’s willingness to repay; (iv) collaterals and guarantees of the loan; (v) legal remedies available in case of default; and (vi) length of time by which payment of principal and interest on loans are overdue. We classify our loans into the following five categories: normal, special mention, substandard, doubtful and loss, each of which we explain below:

Normal. Loans should be classified as normal if:

- the borrower is operating normally and we are not aware of any factor that may adversely affect the borrower’s ability to repay principal and interest in full on a timely basis;
- we have full confidence in the borrower’s timely payment;
- there is no reason for us to suspect either principal or interest will not be repaid in full on a timely basis; or
- they are current or overdue for 90 days or less, and are low-risk loans which were extended in accordance with our credit risk management policies and procedures.

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

- the principal or interest is current or overdue for 30 days or less, and there are early warning signs which could adversely affect the borrower’s repayment ability but are not serious enough to affect the timely payment of the loan;
- the principal or interest is overdue for more than 31 days but less than 90 days; or
- they are overdue for more than 91 days but less than 180 days, and are low-risk loans which were extended in accordance with our credit risk management policies and procedures.

Substandard. We classify loans as substandard if the borrower’s abilities to service the loans are clearly in question as the borrower cannot rely entirely on normal business revenues to repay principal and interest on

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a timely basis. These loans generally have losses (with a loan loss ratio of 30% or less) that may ensue even when collateral or guarantees are invoked. In general, loans should be classified as substandard if:

- the borrower obtained the loan by forging loan documents;
- the credit extension was in violation of relevant government regulations;
- the principal or interest is current or overdue for 90 days or less, and there exist certain conditions which could materially affect the borrower's repayment ability, including, among others, that (i) the borrower's business operations or management experienced significant problem which could adversely affect the timely repayment of the loan, (ii) the borrower is involved in litigations the outcome of which may result in our losses, and (iii) the borrower is unable to obtain financing from alternative sources;
- the principal or interest is overdue for more than 91 days but less than 180 days, and there exist general characteristics of substandard loans; or
- the principal or interest is overdue for more than 180 days.

Doubtful. We classify loans as doubtful if the borrower cannot repay principal and interest in full and we will have to recognize significant losses (with a loan loss ratio of 31% to 95%) even when collateral or guarantees are invoked. In general, loans should be classified as doubtful if:

- the borrower's business operations or projects under construction are suspended;
- the borrower has greater amounts of liabilities than assets; or
- for secured loans, those which we will incur a loan loss ratio of 31% to 95% even when collateral or guarantees are invoked.

Loss. Loans are classified as loss if only a small portion or no (less than 5%) principal and interest can be recovered after taking all possible measures and exhausting all legal remedies. In general, loans are classified as loss if one or more of the following conditions, among others, exist:

- the borrower has become the subject of bankruptcy proceedings;
- the borrower is unable to repay the loan and only a small portion of or no principal and interest can be recovered after taking all possible measures and exhausting all legal remedies;
- the borrower committed fraud and is investigated by the authorities, and we are unable to recover the principal and interest after taking all possible measures;
- the borrower experienced significant losses caused by accidents or natural disasters and such losses were not fully covered by insurance;
- the borrower's business operations are suspended and this results in the loss of the full amount or a substantial portion of the loan; or
- the loan is approved for write-off.

For more information regarding the classification of restructured non-performing loans, see "Risk Management — Credit Risk Management — Credit Risk Management for Corporate Loans — Disbursement and Post-Disbursement Management — Administration of Non-Performing Assets."

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Distribution of Loans by Loan Classification

The following tables set forth, as of the dates indicated, the distribution of our loan portfolio by loan classification category. Under our five-category loan classification system, we consider loans classified as substandard, doubtful and loss as non-performing loans.

	As of December 31,					
	2004		2005		2006	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Normal	270,433	88.1%	339,708	91.8%	440,352	95.1%
Special mention	17,166	5.6	15,241	4.1	11,250	2.4
Substandard	3,557	1.2	2,685	0.7	1,981	0.4
Doubtful	9,316	3.0	8,781	2.4	7,404	1.6
Loss	6,407	2.1	3,845	1.0	2,180	0.5
Total loans to customers	<u>306,879</u>	<u>100.0%</u>	<u>370,260</u>	<u>100.0%</u>	<u>463,167</u>	<u>100.0%</u>
Performing loans	287,599	93.7%	354,949	95.9%	451,602	97.5%
Non-performing loans	19,280	6.3%	15,311	4.1%	11,565	2.5%

	As of December 31,					
	2004		2005		2006	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Corporate loans						
Normal	221,001	86.2%	252,915	89.6%	347,389	94.1%
Special mention	16,532	6.4	14,442	5.1	10,616	2.9
Substandard	3,441	1.4	2,629	0.9	1,895	0.5
Doubtful	9,043	3.5	8,455	3.0	7,092	1.9
Loss	6,405	2.5	3,834	1.4	2,164	0.6
Subtotal	<u>256,422</u>	<u>100.0%</u>	<u>282,275</u>	<u>100.0%</u>	<u>369,156</u>	<u>100.0%</u>
Non-performing loan ratio ⁽¹⁾		7.4%		5.3%		3.0%
Discounted bills						
Normal	18,533	99.0%	50,078	99.9%	45,581	99.9%
Special mention	194	1.0	73	0.1	55	0.1
Substandard	—	0.0	—	0.0	—	0.0
Doubtful	—	0.0	—	0.0	—	0.0
Loss	—	0.0	—	0.0	—	0.0
Subtotal	<u>18,727</u>	<u>100.0%</u>	<u>50,151</u>	<u>100.0%</u>	<u>45,636</u>	<u>100.0%</u>
Non-performing loan ratio ⁽¹⁾		0.0%		0.0%		0.0%

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	As of December 31,					
	2004		2005		2006	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Personal loans						
Normal	30,899	97.4%	36,715	97.0%	47,382	97.9%
Special mention	440	1.4	726	2.0	579	1.2
Substandard	116	0.3	56	0.1	86	0.2
Doubtful	273	0.9	326	0.9	312	0.7
Loss	<u>2</u>	<u>0.0</u>	<u>11</u>	<u>0.0</u>	<u>16</u>	<u>0.0</u>
Subtotal	<u>31,730</u>	<u>100.0%</u>	<u>37,834</u>	<u>100.0%</u>	<u>48,375</u>	<u>100.0%</u>
Non-performing loan ratio⁽¹⁾		1.2%		1.0%		0.9%
Total loans to customers	<u>306,879</u>	<u>100.0%</u>	<u>370,260</u>	<u>100.0%</u>	<u>463,167</u>	<u>100.0%</u>
Non-performing loan ratio⁽¹⁾		6.3%		4.1%		2.5%

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

Changes in the Asset Quality of Our Loan Portfolio

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

	For the year ended December 31,		
	2004	2005	2006
	(in millions of RMB)		
Beginning of period	23,205	19,280	15,311
Net New NPLs ⁽¹⁾	477	(362)	52
Write-offs	(3,035)	(3,519)	(3,685)
Others ⁽²⁾	<u>(1,367)</u>	<u>(88)</u>	<u>(113)</u>
End of period	<u>19,280</u>	<u>15,311</u>	<u>11,565</u>
NPL ratio	<u>6.3%</u>	<u>4.1%</u>	<u>2.5%</u>

(1) Consists of (i) NPL downgrades during the period less (ii) NPL upgrades and (iii) NPL recoveries during the period.

(2) Consists of (i) transfer out, which consist of the transfer of non-performing loan assets to repossessed assets, (ii) transfer to fixed assets and (iii) gains or losses from revaluation of foreign currency-denominated non-performing loans.

Our non-performing loans and non-performing loan ratio decreased to RMB 11,565 million and 2.5%, respectively, as of December 31, 2006, from RMB 19,280 million and 6.3%, respectively, as of December 31, 2004, primarily due to a decrease in net non-performing loans and increases in loan write-offs. Excluding the impact of our loan write-offs, our non-performing loan ratios as of December 31, 2006, 2005 and 2004 were 3.3%, 5.0% and 7.2% respectively. The net new non-performing loans in 2006 and 2005 decreased compared to those in 2004, reflecting, among others, (i) our continuing efforts to strengthen our credit extension policies and procedures, (ii) our increased efforts in recovering existing non-performing loans, and (iii) the continuing favorable economic environment. The increase in loan write-offs reflected, among others, the strengthened implementation of our policies to write off loans that meet write-off requirements.

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Distribution of Non-performing Loans by Product Type

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

	As of December 31,								
	2004			2005			2006		
	Amount	% of total	NPL ratio ⁽¹⁾	Amount	% of total	NPL ratio ⁽¹⁾	Amount	% of total	NPL ratio ⁽¹⁾
	(in millions of RMB, except percentages)								
Corporate loans									
Short-term loans	14,150	73.4%	8.73%	11,259	73.5%	6.17%	9,220	79.7%	4.04%
Medium and long term loans	4,739	24.6	5.02	3,659	23.9	3.67	1,931	16.7	1.37
Total corporate loans	<u>18,889</u>	<u>98.0%</u>	<u>7.37%</u>	<u>14,918</u>	<u>97.4%</u>	<u>5.28%</u>	<u>11,151</u>	<u>96.4%</u>	<u>3.02%</u>
Discounted bills	—	0.0%	0.00%	—	0.0%	0.00%	—	—	0.00%
Personal loans									
Residential mortgage loans	141	0.7%	0.79%	86	0.6%	0.33%	97	0.8%	0.27%
Individual commercial loans	185	1.0	2.51	230	1.5	3.73	222	1.9	3.79
Personal consumption loans	34	0.2	0.72	39	0.3	0.98	44	0.4	1.11
Personal automobile loans	22	0.1	1.49	23	0.1	2.68	27	0.3	7.63
Credit card advances	9	0.0	4.33	15	0.1	3.36	24	0.2	1.87
Education loans	—	0.0	0.00	—	—	—	—	—	—
Subtotal	<u>391</u>	<u>2.0%</u>	<u>1.23%</u>	<u>393</u>	<u>2.6%</u>	<u>1.04%</u>	<u>414</u>	<u>3.6%</u>	<u>0.85%</u>
Total non-performing loans	<u>19,280</u>	<u>100.0%</u>	<u>6.28%</u>	<u>15,311</u>	<u>100.0%</u>	<u>4.14%</u>	<u>11,565</u>	<u>100.0%</u>	<u>2.50%</u>

Distribution of Corporate Non-performing Loans by Industry

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

	As of December 31,								
	2004			2005			2006		
	Amount	% of total	NPL ratio ⁽¹⁾	Amount	% of total	NPL ratio ⁽¹⁾	Amount	% of total	NPL ratio ⁽¹⁾
	(in millions of RMB, except percentages)								
Manufacturing									
Iron and steel	169	0.9%	1.89%	120	0.8%	1.01%	6	0.1%	0.04%
Telecommunications equipment, software and other electronic equipment	376	2.0	6.40	465	3.1	6.81	505	4.5	5.61
Transportation equipment	258	1.4	3.83	454	3.0	6.40	318	2.9	3.67
Textile	548	2.9	10.52	618	4.1	9.86	547	4.9	6.95
Others	<u>3,723</u>	<u>19.7</u>	<u>8.37</u>	<u>3,384</u>	<u>22.8</u>	<u>6.84</u>	<u>3,404</u>	<u>30.5</u>	<u>5.13</u>
Subtotal	<u>5,074</u>	<u>26.9%</u>	<u>7.12%</u>	<u>5,041</u>	<u>33.8%</u>	<u>6.18%</u>	<u>4,780</u>	<u>42.9%</u>	<u>4.40%</u>
Production and supply of electric power, gas and water	78	0.5%	0.33%	110	0.7%	0.41%	16	0.1%	0.04%
Transportation, storage and post service	625	3.3	2.78	523	3.5	2.21	156	1.4	0.43
Wholesale and retail	4,327	22.9	16.63	2,956	19.8	9.89	2,383	21.4	7.12
Real estate	3,025	16.0	10.94	2,274	15.2	9.91	1,330	11.9	4.62
Water, environment and public utility management	44	0.2	0.24	24	0.2	0.12	18	0.2	0.07
Rent and business services	1,384	7.3	9.52	1,203	8.1	6.48	829	7.4	2.82
Construction	130	0.7	0.93	129	0.9	0.81	48	0.4	0.21
Financing	915	4.8	12.41	355	2.4	3.86	240	2.2	7.72
Public management and social organizations	112	0.6	1.95	106	0.7	1.35	102	0.9	0.97
Others ⁽²⁾	<u>3,175</u>	<u>16.8</u>	<u>12.46</u>	<u>2,197</u>	<u>14.7</u>	<u>8.68</u>	<u>1,249</u>	<u>11.2</u>	<u>4.01</u>
Total non-performing loans	<u>18,889</u>	<u>100.0%</u>	<u>7.37%</u>	<u>14,918</u>	<u>100.0%</u>	<u>5.28%</u>	<u>11,151</u>	<u>100.0%</u>	<u>3.02%</u>

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

(2) Primarily consists of farming, forestry, husbandry and fishing, mining, hotels and restaurants, residential services, education, health care, social security and social welfare, culture, sports and entertainment, telecommunications, and international organizations. Also includes loans extended by our Hong Kong operations.

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As of December 31, 2006, 2005 and 2004, the industries in which we had a relatively high concentration of non-performing loans or higher non-performing loan ratios than the overall loan portfolio include manufacturing, wholesale and retail, real estate, rent and business service and financing. Reflecting our efforts to improve our overall asset quality, the non-performing loan ratios of manufacturing, wholesale and retail, and rent and business services decreased significantly during this period. In addition, we have restricted our lending policy to the real estate industry, contributing to a continuing decrease in total non-performing loans and non-performing loan ratio in the real estate industry as well as a decrease in real estate loans as a percentage of our total corporate loans. The non-performing loan ratio in financing as of December 31, 2006 increased compared to December 31, 2005 primarily attributable to a decrease in the amount of total loans outstanding in this industry. See “— Loans and Advances to Customers — Distribution of Corporate Loans by Industry”.

Historically, we have experienced higher non-performing loan ratios in real estate and textile industries. The non-performing loan ratios of the textile industry have been affected by the deteriorating quality of loans to a limited number of larger borrowers in this category, which in turn reflected the weak performance of the overall textile industry in China. The higher non-performing loan ratios of the real estate industry reflected the higher credit risk of the overall real estate industry in China, which has been subject to PRC Government’s macro-economic measures in recent years.

Distribution of Non-performing Loans by Geographical Region

The following table sets forth, as of the dates indicated, the distribution of our non-performing loans by geographical region. For a description of our geographical regions, see “Definitions and Conventions.”

	As of December 31,								
	2004			2005			2006		
	Amount	% of total	NPL ratio ⁽¹⁾	Amount	% of total	NPL ratio ⁽¹⁾	Amount	% of total	NPL ratio ⁽¹⁾
	(in millions of RMB, except percentages)								
Yangtze River Delta	1,491	7.7%	1.63%	925	6.0%	0.77%	756	6.5%	0.52%
Bohai Rim ⁽²⁾	8,237	42.7	8.22	6,029	39.4	5.21	5,091	44.0	3.68
Pearl River Delta and West Strait	8,196	42.5	16.56	6,467	42.3	12.23	3,977	34.4	5.83
Central	419	2.2	1.52	754	4.9	2.08	816	7.1	1.75
Western	593	3.1	2.12	660	4.3	2.06	497	4.3	1.13
Northeastern	344	1.8	3.48	476	3.1	3.60	428	3.7	2.24
Hong Kong	—	—	—	—	—	—	—	—	—
Total	19,280	100.0%	6.28%	15,311	100.0%	4.14%	11,565	100.0%	2.50%

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

(2) Includes the head office.

We have historically experienced a higher non-performing loan ratio in the Pearl River Delta and West Strait region. The relatively higher non-performing loan ratio in the Pearl River Delta and West Strait region was primarily attributable to a relatively higher non-performing loan ratio at our Shenzhen branch, which in turn was attributable to non-performing loans extended in the 1990s. We believe that the high non-performing loan ratio of our Shenzhen branch during the 1990s reflected, among other things, a combination of the rapid economic growth coupled with the poor credit environment in this region, as well as the weaker credit risk management of our Shenzhen branch. As a reflection of our efforts in improving our credit risk management in this region, the non-performing loan ratio of loans originated in this region decreased significantly from December 31, 2004 to December 31, 2006. Furthermore, in part reflecting our efforts to improve our overall asset quality, loans originated in the Yangtze River Delta region, where we have experienced relatively low non-performing loan ratio, increased as a percentage of our total loan portfolio from December 31, 2004 to December 31, 2006. For our historical loan balance data by region, see “— Loans and Advances to Customers — Distribution of Loans by Geographical Region”.

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Ten Largest Non-performing Borrowers

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

As of December 31, 2006						
Industry	Amount	Classification	% of total non-performing loans	% of regulatory capital		
(in millions of RMB, except percentages)						
Borrower A	Wholesale and retail	341	Loss	2.9%	0.8%	
Borrower B	Manufacturing	307	Doubtful	2.7	0.7	
Borrower C	Rent and business services	267	Doubtful	2.3	0.6	
Borrower D	Manufacturing	246	Doubtful	2.1	0.6	
Borrower E	Financing	232	Doubtful	2.0	0.5	
Borrower F	Manufacturing	200	Doubtful	1.7	0.4	
Borrower G	Manufacturing	184	Doubtful	1.6	0.4	
Borrower H	Manufacturing	165	Substandard	1.4	0.4	
Borrower I	Culture, sports and entertainment	157	Doubtful	1.4	0.4	
Borrower J	Real estate	<u>150</u>	Doubtful	<u>1.3</u>	<u>0.3</u>	
Total		<u>2,249</u>		<u>19.4%</u>	<u>5.1%</u>	

Loan Aging Schedule

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

	As of December 31,					
	2004		2005		2006	
	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)						
Current loans	286,875	93.5%	352,988	95.3%	449,427	97.0%
Loans past due for ⁽¹⁾ :						
1 to 90 days	2,085	0.7	2,988	0.8	2,311	0.5
91 days to 180 days	1,414	0.4	1,283	0.4	735	0.2
181 days or more	<u>16,505</u>	<u>5.4</u>	<u>13,001</u>	<u>3.5</u>	<u>10,694</u>	<u>2.3</u>
Subtotal	<u>20,004</u>	<u>6.5%</u>	<u>17,272</u>	<u>4.7%</u>	<u>13,740</u>	<u>3.0%</u>
Total loans to customers	<u>306,879</u>	<u>100.0%</u>	<u>370,260</u>	<u>100.0%</u>	<u>463,167</u>	<u>100.0%</u>
Loans overdue for 91 days or more	17,919	5.8%	14,284	3.9%	11,429	2.5%

(1) For loans and advances to customers, overdue amount represents loans of which the whole or part of the principals was overdue, or interest was overdue for more than 90 days but for which principal was not yet due.

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Distribution of Financial Restructuring-related Non-performing Loans

The following table sets forth the distribution of the non-performing loans we sold as part of our financial restructuring. See “Our Restructuring and Operational Reforms — Financial Restructuring”.

<u>Industry</u>	<u>Loans past due for</u>				<u>Total</u>
	<u>Less than one year</u>	<u>Between one and three years</u>	<u>Between three and five years</u>	<u>More than five years</u>	
	(in millions of RMB)				
Transportation, storage and post service	—	—	—	346	346
Real estate	30	—	—	224	254
Hotels and restaurants	—	245	—	—	245
Rent and business services	135	—	—	4	139
Manufacturing	—	—	—	90	90
Wholesale and retail	—	23	7	37	67
Farming, forestry, husbandry and fishing	<u>1</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1</u>
Total	<u>166</u>	<u>268</u>	<u>7</u>	<u>701</u>	<u>1,142</u>

All of the financial restructuring-related loans sold were corporate loans.

Allowance for Impairment Losses on Loans and Advances to Customers

In 2005, we began to assess our loans for impairment, determine a level of allowance for impairment losses, and recognize any related provisions made in a year, using the concept of impairment under IAS 39. See “Financial Information — Significant Accounting Policies — Allowance for Impairment Losses on Loans and Advances.” For purposes of our consolidated financial statements and this prospectus, the allowance for impairment losses is presented as if we had assessed our loans for impairment on a consistent basis for the years ended December 31, 2006, 2005 and 2004.

The allowance for impairment losses of these loans is measured as the difference between the carrying amount of the loans and the present value of the estimated future cash flows discounted at the effective interest rates of the loans. The total allowance consists of individual impairment allowance and collective impairment allowance. This accounting principle is consistent under both IAS 39 and 2006 PRC GAAP No. 22 “Recognition and Measurement of Financial Investments”. Accordingly, allowance for impairment losses on loans and advances to customers accrued under IAS 39 is the same as the amount accrued under 2006 PRC GAAP.

Individual and Collective Assessment on Loans

In this prospectus, we use the terms “non-performing loans” and “impaired loans and advances” synonymously. We use two methods of assessing impairment losses: on an individual basis and on a collective basis. Individually assessed loans and advances are those considered individually significant. Collectively assessed loans and advances are those homogeneous groups of loans that are considered either individually insignificant or not considered impaired after assessment on an individual basis. We assess our non-performing corporate loans and discounted bills on an individual basis. We assess our (i) performing corporate loans and discounted bills (of which no impairment is identified on an individual basis); and (ii) all personal loans, on a collective basis. The following table sets forth, as of the dates indicated, our non-performing loans assessed on an individual basis, representing non-performing corporate loans and discounted bills, and our non-performing

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loans assessed on a collective basis, representing non-performing personal loans. For details on individual and collective assessment of our loans, see “Financial Information — Significant Accounting Policies”.

	As of December 31,					
	2004		2005		2006	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Individually assessed	18,889	98.0%	14,918	97.4%	11,151	96.4%
Collectively assessed	391	2.0	393	2.6	414	3.6
Total non-performing loans	19,280	100.0%	15,311	100.0%	11,565	100.0%

Distribution of Allowance for Impairment Losses by Loan Classification

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

	As of December 31,								
	2004			2005			2006		
	Amount	% of total	Allowance to loans ⁽¹⁾	Amount	% of total	Allowance to loans ⁽¹⁾	Amount	% of total	Allowance to loans ⁽¹⁾
	(in millions of RMB, except percentages)								
Performing loans	2,260	15.1%	0.79%	2,383	19.5%	0.67%	2,663	27.2%	0.59%
Substandard	699	4.7	19.65	495	4.1	18.44	472	4.8	23.83
Doubtful	5,592	37.4	60.03	5,507	45.0	62.71	4,471	45.7	60.39
Loss	6,407	42.8	100.00	3,845	31.4	100.00	2,180	22.3	100.00
Total allowance	14,958	100.0%	4.87%	12,230	100.0%	3.30%	9,786	100.0%	2.11%

(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.

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

	As of December 31,								
	2004			2005			2006		
	Amount	% of total	Allowance to loans ⁽¹⁾	Amount	% of total	Allowance to loans ⁽¹⁾	Amount	% of total	Allowance to loans ⁽¹⁾
(in millions of RMB, except percentages)									
Corporate loans									
Performing loans	2,087	13.9%	0.88%	2,187	17.9%	0.82%	2,540	25.9%	0.71%
Substandard	637	4.3	18.51	469	3.9	17.84	433	4.4	22.85
Doubtful	5,443	36.4	60.19	5,319	43.5	62.91	4,262	43.6	60.10
Loss	6,405	42.8	100.00	3,834	31.3	100.00	2,164	22.1	100.00
Subtotal	<u>14,572</u>	<u>97.4%</u>	<u>5.68%</u>	<u>11,809</u>	<u>96.6%</u>	<u>4.18%</u>	<u>9,399</u>	<u>96.0%</u>	<u>2.55%</u>
Discounted bills									
Performing loans	41	0.3%	0.22%	41	0.3%	0.08%	39	0.4%	0.09%
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—	—
Subtotal	<u>41</u>	<u>0.3%</u>	<u>0.22%</u>	<u>41</u>	<u>0.3%</u>	<u>0.08%</u>	<u>39</u>	<u>0.4%</u>	<u>0.09%</u>
Personal loans									
Performing loans	132	0.9%	0.42%	155	1.3%	0.41%	84	0.9%	0.18%
Substandard	62	0.4	53.45	26	0.2	46.43	39	0.4	45.35
Doubtful	149	1.0	54.58	188	1.5	57.67	209	2.1	66.99
Loss	2	0.0	100.00	11	0.1	100.00	16	0.2	100.00
Subtotal	<u>345</u>	<u>2.3%</u>	<u>1.09%</u>	<u>380</u>	<u>3.1%</u>	<u>1.00%</u>	<u>348</u>	<u>3.6%</u>	<u>0.72%</u>
Total allowance	<u><u>14,958</u></u>	<u><u>100.0%</u></u>	<u><u>4.87%</u></u>	<u><u>12,230</u></u>	<u><u>100.0%</u></u>	<u><u>3.30%</u></u>	<u><u>9,786</u></u>	<u><u>100.0%</u></u>	<u><u>2.11%</u></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.

Distribution of Allowance for Impairment Losses for Individually-assessed Impaired Corporate Loans by Legal Form of Borrowers

The following table sets forth, as of the dates indicated, the distribution of allowance for impairment losses for individually-assessed impaired corporate loans by legal form of borrowers.

	As of December 31,					
	2004		2005		2006	
	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)						
Joint-stock enterprises	4,707	37.7%	3,976	41.3%	3,378	49.2%
State-owned enterprises	3,994	32.0	2,747	28.5	1,485	21.7
Foreign invested enterprises	2,302	18.5	2,013	20.9	1,385	20.2
Private enterprises	405	3.2	277	2.9	330	4.8
Collectively-controlled enterprises	879	7.0	365	3.8	185	2.7
Others	198	1.6	244	2.6	96	1.4
Total allowance for impaired corporate loans	<u><u>12,485</u></u>	<u><u>100.0%</u></u>	<u><u>9,622</u></u>	<u><u>100.0%</u></u>	<u><u>6,859</u></u>	<u><u>100.0%</u></u>

ASSETS AND LIABILITIES

Changes to the Allowance for Impairment Losses

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

	<u>Amount</u> (in millions of RMB)
As of December 31, 2003	<u>16,774</u>
Charge for the year ⁽¹⁾	1,589
Unwinding of discount ⁽²⁾	(307)
Transfers out ⁽³⁾	(73)
Write-offs	(3,035)
Recoveries of loans and advances previously written off	<u>10</u>
As of December 31, 2004	<u>14,958</u>
Charge for the year ⁽¹⁾	1,055
Unwinding of discount ⁽²⁾	(275)
Transfers out ⁽³⁾	(6)
Write-offs	(3,519)
Recoveries of loans and advances previously written off	<u>17</u>
As of December 31, 2005	<u>12,230</u>
Charge for the year ⁽¹⁾	1,535
Unwinding of discount ⁽²⁾	(210)
Transfers out ⁽³⁾	(207)
Write-offs	(3,685)
Recoveries of loans and advances previously written off	<u>123</u>
As of December 31, 2006	<u>9,786</u>

(1) Represents the amount of the net allowance for impairment losses recognized in our consolidated income statement.

(2) Represents the amount of increase in the present value of a loan after impairment that is due to the passage of time, which we recognize as interest income.

(3) Consists of releases from the allowance for impairment losses resulting from the transfer of loan assets to repossessed assets.

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

	<u>For the</u> <u>year ended December 31,</u>		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
	(in millions of RMB)		
Corporate loans	1,561	1,019	1,557
Discounted bills	(53)	—	(2)
Personal loans	<u>81</u>	<u>36</u>	<u>(20)</u>
Total charge for the period	<u>1,589</u>	<u>1,055</u>	<u>1,535</u>

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

	For the year ended December 31,		
	2004	2005	2006
	(in millions of RMB)		
Net provision (write-back) for non-performing corporate loans ⁽¹⁾	1,127	919	1,203
Provision for performing corporate loans ⁽¹⁾	434	100	354
Charge for the period ⁽²⁾	1,561	1,019	1,557

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

(2) Represents the net provision for impairment losses on corporate loans.

Our allowance for impairment losses decreased to RMB 9,786 million as of December 31, 2006 from RMB 12,230 million as of December 31, 2005, which decreased from RMB 14,958 million as of December 31, 2004. The most significant item affecting the change in our allowance for impairment losses in 2006, 2005 and 2004 was the reduction of the allowance resulting from loan write-offs in these periods.

Charge for 2006 increased by RMB 480 million to RMB 1,535 million from RMB 1,055 million in 2005 primarily due to an increase in the charge for our corporate loans. Charge for corporate loans increased from 2005 to 2006 due to a combination of an increase of RMB 284 million in net provision for non-performing corporate loans and an increase of RMB 254 million in charge for performing corporate loans. The increase in net provision for non-performing corporate loans from 2005 to 2006 reflected increasing difficulties in recovering existing non-performing loans. The increase in provision for performing corporate loans was primarily due to an increase in newly extended corporate loans in 2006 compared to 2005.

Charge in 2005 decreased by RMB 534 million to RMB 1,055 million from RMB 1,589 million in 2004 primarily due to a decrease in the charge on our corporate loans. Charge for corporate loans decreased from 2004 to 2005 due to a combination of a decrease in provision for performing corporate loans and a decrease in net provision for non-performing corporate loans during the same period. Provision for performing corporate loans decreased from 2004 to 2005 primarily due to the decrease in the amount of performing corporate loans extended during the same period. Net provision for non-performing corporate loans decreased from 2004 to 2005 primarily due to the increase in write-backs as a result of loan recoveries from 2004 to 2005.

The coverage ratios of our total allowance for impairment losses to total non-performing loans and to total loans to customers were 84.6% and 2.1%, respectively, as of December 31, 2006, compared to 79.9% and 3.3%, respectively, as of December 31, 2005 and 77.6% and 4.9%, respectively, as of December 31, 2004.

ASSETS AND LIABILITIES

Distribution of Allowance for Impairment Losses by Product Type

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

	As of December 31,								
	2004			2005			2006		
	Amount	% of total	Allowance to NPLs ⁽¹⁾	Amount	% of total	Allowance to NPLs ⁽¹⁾	Amount	% of total	Allowance to NPLs ⁽¹⁾
	(in millions of RMB, except percentages)								
Corporate loans									
Short-term loans	11,128	74.4%	78.64%	8,635	70.6%	76.69%	7,298	74.6%	79.15%
Medium- and long-term loans	3,444	23.0	72.67	3,174	26.0	86.75	2,101	21.4	108.80
Total corporate loans	14,572	97.4%	77.15%	11,809	96.6%	79.16%	9,399	96.0%	84.29%
Discounted bills	41	0.3%	—	41	0.3%	—	39	0.4%	—
Personal loans									
Residential mortgage loans	97	0.6%	68.79%	81	0.7%	94.19%	59	0.6%	60.82%
Individual commercial loans	204	1.4	110.27	243	2.0	105.65	211	2.2	95.05
Personal consumption loans	21	0.1	61.76	25	0.2	64.10	45	0.5	102.27
Personal automobile loans	12	0.1	54.55	13	0.1	56.52	4	0.0	14.81
Credit card advances	11	0.1	122.22	18	0.1	120.00	24	0.2	100.00
Education loans	—	—	—	—	—	—	5	0.1	0.00
Subtotal	345	2.3%	88.24%	380	3.1%	96.69%	348	3.6%	84.06%
Total allowance	14,958	100.0%	77.58%	12,230	100.0%	79.88%	9,786	100.0%	84.62%

(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.

The following table sets forth, as of the dates indicated, the distribution by product type of our allowance for impairment losses on loans that were collectively assessed for impairment. See “— Allowance for Impairment Losses on Loans and Advances to Customers — Individual and Collective Assessment on Loans”.

	As of December 31,					
	2004		2005		2006	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Corporate loans						
Short-term loans	1,186	48.0%	1,320	50.6%	1,491	50.9%
Medium- and long-term loans	901	36.4	867	33.2	1,049	35.9
Total corporate loans	2,087	84.4%	2,187	83.8%	2,540	86.8%
Discounted bills	41	1.7%	41	1.6%	39	1.3%
Personal loans						
Residential mortgage loans	97	3.9	81	3.1	59	2.0
Individual commercial loans	204	8.3	243	9.3	211	7.2
Personal consumption loans	21	0.8	25	1.0	45	1.6
Personal automobile loans	12	0.5	13	0.5	4	0.1
Credit card advances	11	0.4	18	0.7	24	0.8
Education loans	—	—	—	—	5	0.2
Subtotal	345	13.9%	380	14.6%	348	11.9%
Total allowance	2,473	100.0%	2,608	100.0%	2,927	100.0%

ASSETS AND LIABILITIES

Distribution of Allowance for Impairment Losses for Corporate Loans by Industry

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

	As of December 31,								
	2004			2005			2006		
	Amount	% of total	Allowance to NPLs ⁽¹⁾	Amount	% of total	Allowance to NPLs ⁽¹⁾	Amount	% of total	Allowance to NPLs ⁽¹⁾
	(in millions of RMB, except percentages)								
Manufacturing									
Iron and steel	71	0.5%	42.01%	98	0.8%	81.66%	111	1.2%	1,850.00%
Telecommunications equipment, software and other electronic equipment	239	1.7	63.56	297	2.5	63.87	390	4.2	77.23
Transportation equipment	217	1.5	84.10	267	2.3	58.81	216	2.3	67.92
Textile	385	2.6	70.26	424	3.6	68.60	362	3.8	66.18
Others	3,019	20.7	81.09	2,710	23.0	80.08	2,359	25.1	69.30
Subtotal	<u>3,931</u>	<u>27.0%</u>	<u>77.47%</u>	<u>3,796</u>	<u>32.2%</u>	<u>75.30%</u>	<u>3,438</u>	<u>36.6%</u>	<u>71.92%</u>
Production and supply of electric power, gas and water	254	1.7%	325.64%	217	1.8%	197.27%	278	3.0%	1,737.50%
Transportation, storage and post service	621	4.3	99.36	545	4.6	104.21	343	3.6	219.87
Wholesale and Retail	3,532	24.2	81.63	2,221	18.8	75.14	1,795	19.1	75.33
Real estate	1,866	12.8	61.69	1,594	13.5	70.10	926	9.9	69.62
Water, environment and public utility management	198	1.4	450.00	213	1.8	887.50	232	2.4	1,288.89
Rent and business services	1,188	8.2	85.84	1,119	9.5	93.02	831	8.8	100.24
Construction	222	1.5	170.77	143	1.2	110.85	178	1.9	370.83
Financing	525	3.6	57.38	333	2.8	93.80	104	1.1	43.33
Public management and social organizations	127	0.9	113.39	144	1.2	135.85	112	1.2	109.80
Others ⁽²⁾	2,108	14.4	66.39	1,484	12.6	67.55	1,162	12.4	93.03
Total allowance for corporate loans	<u>14,572</u>	<u>100.0%</u>	<u>77.15%</u>	<u>11,809</u>	<u>100.0%</u>	<u>79.16%</u>	<u>9,399</u>	<u>100.0%</u>	<u>84.29%</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) Primarily consists of farming, forestry, husbandry and fishing, mining, hotels and restaurants, residential services, education, health care, social security and social welfare, culture, sports and entertainment, telecommunications, and international organizations. Also includes loans extended by our Hong Kong operations.

As a result of the higher non-performing loan ratios that we experienced in real estate and textile industries, we have extended less unsecured loans in these industries, and have requested security of greater value from borrowers. As we are expecting higher than average recovery value from security, our allowance to non-performing loan ratios in these two industries have been lower than average. See “— Loans and Advances to Customers — Distribution of Corporate Non-performing Loans by Industry”.

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The following table sets forth, as of the dates indicated, the distribution by industry of our allowance for impairment losses on corporate loans that were collectively assessed for impairment. See “— Allowance for Impairment Losses on Loans and Advances to Customers — Individual and Collective Assessment on Loans”.

	As of December 31,					
	2004		2005		2006	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Manufacturing						
Iron and steel	59	2.8%	73	3.3%	107	4.2%
Telecommunications equipment, software and other electronic equipment	46	2.2	61	2.8	63	2.5
Transportation equipment	73	3.5	82	3.8	67	2.6
Textile	36	1.7	46	2.1	47	1.9
Others	323	15.5	362	16.5	427	16.8
Subtotal	537	25.7%	624	28.5%	711	28.0%
Production and supply of electric power, gas and water	179	8.6%	211	9.7%	271	10.7%
Transportation, storage and post service	162	7.8	170	7.8	240	9.4
Wholesale and retail	168	8.0	197	9.0	216	8.5
Real estate	277	13.3	197	9.0	206	8.1
Water, environment and public utility management	191	9.1	206	9.4	229	9.0
Rent and business services	107	5.1	113	5.2	187	7.4
Construction	129	6.2	102	4.7	153	6.0
Financing	78	3.7	91	4.2	38	1.5
Public management and social organizations	36	1.7	47	2.2	66	2.6
Others ⁽¹⁾	223	10.8	229	10.3	223	8.8
Total allowance for corporate loans	2,087	100.0%	2,187	100.0%	2,540	100.0%

(1) Primarily consists of farming, forestry, husbandry and fishing, mining, hotels and restaurants, residential services, education, health care, social security and social welfare, culture, sports and entertainment, telecommunications, and international organizations. Also includes loans extended by our Hong Kong operations.

Distribution of Allowance for Impairment Losses by Geographical Region

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

	As of December 31,								
	2004			2005			2006		
	Amount	% of total	Allowance to NPLs ⁽¹⁾	Amount	% of total	Allowance to NPLs ⁽¹⁾	Amount	% of total	Allowance to NPLs ⁽¹⁾
	(in millions of RMB, except percentages)								
Yangtze River Delta	1,865	12.5%	125.08%	1,132	9.3%	122.38%	1,120	11.4%	148.15%
Bohai Rim ⁽²⁾	5,817	38.8	70.62	4,739	38.8	78.60	3,882	39.7	76.25
Pearl River Delta and West Strait	6,244	41.8	76.18	5,121	41.8	79.19	3,257	33.3	81.90
Central	446	3.0	106.44	637	5.2	84.48	768	7.8	94.12
Western	378	2.5	63.74	420	3.4	63.64	467	4.8	93.96
Northeastern	207	1.4	60.17	180	1.5	37.82	291	3.0	67.99
Hong Kong	1	0.0	0.00	1	0.0	0.00	1	0.0	0.00
Total	14,958	100.0%	77.58%	12,230	100.0%	79.88%	9,786	100.0%	84.62%

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

(2) Includes the head office.

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The following table sets forth, as of the dates indicated, the distribution by geographic region of our allowance for impairment losses on loans that were collectively assessed for impairment. See “— Allowance for Impairment Losses on Loans and Advances to Customers — Individual and Collective Assessment on Loans”.

	As of December 31,					
	2004		2005		2006	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Yangtze River Delta	784	31.7%	754	28.9%	863	29.5%
Bohai Rim ⁽¹⁾	818	33.1	908	34.8	967	33.0
Pearl River Delta and West Strait	378	15.3	402	15.4	451	15.4
Central	206	8.3	254	9.8	272	9.3
Western	212	8.6	221	8.5	267	9.1
Northeastern	74	3.0	68	2.6	106	3.7
Hong Kong	1	0.0	1	0.0	1	0.0
Total	<u>2,473</u>	<u>100.0%</u>	<u>2,608</u>	<u>100.0%</u>	<u>2,927</u>	<u>100.0%</u>

(1) Includes the head office.

Investments

Our investment portfolio consists of listed and unlisted Renminbi- and foreign currency-denominated securities. The following table sets forth our investment securities by currency as of the dates indicated.

	As of December 31,					
	2004		2005		2006	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
RMB-denominated securities	75,752	68.3%	69,327	66.4%	72,569	69.5%
Foreign currency-denominated securities US dollar	24,052	21.7	28,266	27.1	26,321	25.2
Other currencies	11,099	10.0	6,823	6.5	5,534	5.3
Subtotal	<u>35,151</u>	<u>31.7</u>	<u>35,089</u>	<u>33.6</u>	<u>31,855</u>	<u>30.5</u>
Total investment securities	<u>110,903</u>	<u>100.0%</u>	<u>104,416</u>	<u>100.0%</u>	<u>104,424</u>	<u>100.0%</u>

Investments represented 14.8%, 17.6% and 22.4% of our total assets as of December 31, 2006, 2005 and 2004, respectively. We classify our investment portfolio into (i) held-to-maturity, (ii) available-for-sale, and (iii) debt securities at fair value through profit or loss (primarily consisting of debt securities held for trading purposes), primarily based on our intentions with respect to these securities. The following table sets forth, as of the dates indicated, the components of our investment portfolio.

	As of December 31,					
	2004		2005		2006	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Held-to-maturity debt securities	61,370	55.4%	67,727	64.9%	68,196	65.3%
Available-for-sale debt securities	40,411	36.4	31,564	30.2	31,166	29.9
Debt securities at fair value through profit or loss	8,784	7.9	4,813	4.6	4,725	4.5
Total debt securities	<u>110,565</u>	<u>99.7%</u>	<u>104,104</u>	<u>99.7%</u>	<u>104,087</u>	<u>99.7%</u>
Available-for-sale equity securities	338	0.3%	312	0.3%	337	0.3%
Total investment securities	<u>110,903</u>	<u>100.0%</u>	<u>104,416</u>	<u>100.0%</u>	<u>104,424</u>	<u>100.0%</u>

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Debt securities

	As of December 31,					
	2004		2005		2006	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Government	32,629	29.5%	26,162	25.1%	23,106	22.2%
PBOC	34,055	30.8	27,417	26.4	23,721	22.8
Policy banks	17,987	16.3	18,660	17.9	24,917	23.9
Banks and other financial institutions	11,223	10.2	15,428	14.8	15,650	15.1
Public sector entities outside mainland China ..	10,305	9.3	9,172	8.8	8,988	8.6
Corporate entities	4,366	3.9	7,265	7.0	7,705	7.4
Total debt instruments	<u>110,565</u>	<u>100.0%</u>	<u>104,104</u>	<u>100.0%</u>	<u>104,087</u>	<u>100.0%</u>

	As of December 31,					
	2004		2005		2006	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
PRC	77,561	70.1%	71,616	68.8%	74,760	71.8%
Outside PRC	<u>33,004</u>	<u>29.9</u>	<u>32,488</u>	<u>31.2</u>	<u>29,327</u>	<u>28.2</u>
Total debt instruments	<u>110,565</u>	<u>100.0%</u>	<u>104,104</u>	<u>100.0%</u>	<u>104,087</u>	<u>100.0%</u>

Maturity Profile of Investment Portfolio

The following table sets forth, as of December 31, 2006, our debt investments by remaining maturity.

	As of December 31, 2006					Total				
	Due less than 3 months	Due between 3 to 12 months	Due between 1 to 5 years	Due more than 5 years	(in millions of RMB)					
	Governments	2,613	6,120	12,070	3,066		23,869			
PBOC	4,913	17,867	939	0	23,719					
Policy banks	4,169	5,254	9,914	4,824	24,161					
Banks and other financial institutions	2,191	695	6,133	6,475	15,494					
Foreign public sector entities	0	234	2,599	6,155	8,988					
Legal person entity	<u>1,302</u>	<u>5,134</u>	<u>720</u>	<u>700</u>	<u>7,856</u>					
Total debt instruments	<u>15,188</u>	<u>35,304</u>	<u>32,375</u>	<u>21,220</u>	<u>104,087</u>					

Carrying Value and Market Value

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

	As of December 31,					
	2004		2005		2006	
	Carrying value	Market/fair value	Carrying value	Market/fair value	Carrying value	Market/fair value
	(in millions of RMB)					
Held-to-maturity securities	61,370	61,272	67,727	68,068	68,196	68,453

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Equity Securities

As of December 31, 2006, our available for sale equity securities consisted of (i) RMB 267 million in equity securities held by China Investment and Finance Limited our subsidiary in which we hold a 95% interest; and (ii) RMB 70 million in equity securities of China UnionPay.

Investment Concentration

The following table sets forth, as of December 31, 2006, our ten largest holdings of investment securities.

		As of December 31, 2006			
	<u>Issuer</u>	<u>Carrying value</u>	<u>% of total investment portfolio</u>	<u>% of total shareholders' equity⁽¹⁾</u>	<u>Market/fair value</u>
(in millions of RMB, except percentages)					
Investment A	PBOC	4,465	4.3%	14.1%	4,465
Investment B	US Government	3,287	3.2	10.4	3,274
Investment C	PBOC	2,923	2.8	9.2	2,923
Investment D	MOF	2,439	2.3	7.7	2,439
Investment E	PBOC	1,991	1.9	6.3	1,991
Investment F	FNMA	1,786	1.7	5.6	1,787
Investment G	China Development Bank ⁽²⁾	1,597	1.5	5.0	1,597
Investment H	China Development Bank ⁽²⁾	1,475	1.4	4.7	1,475
Investment I	PBOC	1,304	1.3	4.1	1,304
Investment J	MOF	1,270	1.2	4.0	1,270
Total		<u>22,537</u>	<u>21.6%</u>	<u>71.1%</u>	<u>22,525</u>

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

(2) A policy bank wholly owned by the PRC Government.

Other Components of Our Assets

In addition to loans and advances to customers and investment securities, other components of our assets primarily include (i) cash and balances with central bank, (ii) amounts due from banks and other financial institutions and (iii) other assets, such as property and equipment, deferred tax assets and certain receivables.

Cash and balances with central bank primarily consist of cash, statutory deposit reserves, surplus deposit reserves and balances under reverse repurchase agreements with the PBOC. 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 (as defined by the PBOC). Surplus deposit reserves are deposits with the PBOC, in excess of statutory deposit reserves, part of which we maintain for settlement purposes. See "Regulation and Supervision — PRC Regulation and Supervision — Operating Requirements — Statutory Deposit Reserve and Surplus Deposit Reserve." The amount of cash and balances with central bank increased by 7.3% to RMB 90,620 million as of December 31, 2006 from RMB 84,453 million as of December 31, 2005, which increased by 55.7% from RMB 54,253 million as of December 31, 2004.

Amounts due from banks and other financial institutions primarily consist of inter-bank placements and balances under reverse repurchase agreements. Amounts due from banks and other financial institutions, net of allowance for impairment losses, increased by 37.9% to RMB 43,250 million as of December 31, 2006 from RMB 31,352 million as of December 31, 2005, which increased by 50.0% from RMB 20,899 million as of December 31, 2004.

Other assets include, among other things, property and equipment, deferred tax assets, and certain receivables. The amount of other assets decreased by 8.0% to RMB 15,048 million as of December 31, 2006 from RMB 16,351 million as of December 31, 2005, which decreased by 6.4% from RMB 17,469 million as of December 31, 2004.

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LIABILITIES AND SOURCES OF FUNDS

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

	As of December 31,					
	2004		2005		2006	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Deposits from customers	435,020	89.8%	530,573	92.9%	618,412	91.6%
Amounts due to banks and other financial institutions	38,190	7.9	28,021	4.9	36,166	5.4
Subordinated debt/bonds issued	6,000	1.2	6,000	1.0	12,000	1.8
Other liabilities ⁽¹⁾	5,472	1.1	6,783	1.2	8,451	1.2
Total liabilities	<u>484,682</u>	<u>100.0%</u>	<u>571,377</u>	<u>100.0%</u>	<u>675,029</u>	<u>100.0%</u>

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

As of December 31, 2006, our total liabilities amounted to RMB 675,029 million, which increased by 18.1% from RMB 571,377 million as of December 31, 2005, which increased by 17.9% from RMB 484,682 million as of December 31, 2004. Deposits from customers have historically been the largest component of our total liabilities, representing 91.6%, 92.9% and 89.8% of total liabilities as of December 31, 2006, 2005 and 2004, respectively. Amounts due to banks and other financial institutions, as a percentage of total liabilities, decreased to 5.4% as of December 31, 2006 from 7.9% as of December 31, 2004.

The deposits from CITIC Group and its subsidiaries as a percentage to our total deposits were 0.8%, 1.2% and 0.9% as of December 31, 2006, 2005 and 2004, respectively. The amounts due to CITIC Group and its subsidiaries as a percentage of our total amounts due to banks and other financial institutions were 30.3%, 3.7% and 6.0% as of December 31, 2006, 2005 and 2004, respectively. The significant increase in the percentage of amounts due to CITIC Group and its subsidiaries as a percentage of the total amounts due to banks and other financial institutions from 2005 to 2006 was due to a significant increase in deposits due to one of CITIC Group's subsidiary, a non-bank financial institution, during the same period.

Deposits from Customers

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

	As of December 31,					
	2004		2005		2006	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Corporate deposits						
Demand	179,106	41.2%	232,933	43.9%	260,971	42.2%
Time	208,140	47.8	226,388	42.7	251,580	40.7
Negotiated	51,350	11.8	48,180	9.1	46,080	7.5
Non-negotiated	156,790	36.0	178,208	33.6	205,500	33.2
Subtotal	<u>387,246</u>	<u>89.0%</u>	<u>459,321</u>	<u>86.6%</u>	<u>512,551</u>	<u>82.9%</u>
Personal deposits						
Demand	6,811	1.6%	10,110	1.9%	26,053	4.2%
Time	40,963	9.4	61,142	11.5	79,808	12.9
Subtotal	<u>47,774</u>	<u>11.0%</u>	<u>71,252</u>	<u>13.4%</u>	<u>105,861</u>	<u>17.1%</u>
Total deposits from customers	<u>435,020</u>	<u>100.0%</u>	<u>530,573</u>	<u>100.0%</u>	<u>618,412</u>	<u>100.0%</u>

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Our total deposits from customers increased by 16.6% to RMB 618,412 million as of December 31, 2006 from RMB 530,573 million as of December 31, 2005, which increased by 22.0% from RMB 435,020 million as of December 31, 2004. Personal deposits, as a percentage of our total deposits, increased to 17.1% as of December 31, 2006 from 11.0% as of December 31, 2004, reflecting our efforts to expand our personal banking business and in line with the general growth in the level of personal wealth in China. In addition, our corporate negotiated deposits decreased by RMB 5,270 million to RMB 46,080 million as of December 31, 2006 from RMB 51,350 million as of December 31, 2004, primarily due to our efforts to reduce our corporate negotiated deposits since 2005, which had a higher average cost than overall corporate deposits. We did not accept new negotiated deposits in 2005 and 2006.

Distribution of Deposits by Currency

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

	As of December 31,					
	2004		2005		2006	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
RMB-denominated						
Corporate deposits	351,053	80.7%	402,499	75.9%	468,864	75.8%
Personal deposits	<u>40,463</u>	<u>9.3</u>	<u>60,569</u>	<u>11.4</u>	<u>93,242</u>	<u>15.1</u>
Subtotal	<u>391,516</u>	<u>90.0%</u>	<u>463,068</u>	<u>87.3%</u>	<u>562,106</u>	<u>90.9%</u>
Foreign currency-denominated						
Corporate deposits	36,193	8.3%	56,822	10.7%	43,687	7.1%
Personal deposits	<u>7,311</u>	<u>1.7</u>	<u>10,683</u>	<u>2.0</u>	<u>12,619</u>	<u>2.0</u>
Subtotal	<u>43,504</u>	<u>10.0%</u>	<u>67,505</u>	<u>12.7%</u>	<u>56,306</u>	<u>9.1%</u>
Total deposits from customers	<u>435,020</u>	<u>100.0%</u>	<u>530,573</u>	<u>100.0%</u>	<u>618,412</u>	<u>100.0%</u>

Our RMB-denominated deposits increased by 21.4% to RMB 562,106 million as of December 31, 2006 from RMB 463,068 million as of December 31, 2005, which increased by 18.3% from RMB 391,516 million as of December 31, 2004. Our foreign currency-denominated deposits decreased by 16.6% to RMB 56,306 million as of December 31, 2006 from RMB 67,505 million as of December 31, 2005, which increased by 55.2% from RMB 43,504 million as of December 31, 2004. In particular, our foreign currency-denominated personal deposits increased by 46.1% to RMB 10,683 million as of December 31, 2005 from RMB 7,311 million as of December 31, 2004. A majority of our foreign currency-denominated deposits are denominated in U.S. dollars.

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

	As of December 31,					
	2004		2005		2006	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Bohai Rim ⁽¹⁾	168,285	38.6%	208,142	39.3%	218,259	35.3%
Yangtze River Delta	127,269	29.2	146,579	27.6	179,751	29.1
Pearl River Delta and West Strait	59,003	13.6	72,855	13.7	89,082	14.4
Central	32,420	7.5	47,214	8.9	59,844	9.7
Western	34,250	7.9	39,204	7.4	48,181	7.8
Northeastern	13,793	3.2	16,579	3.1	23,295	3.7
Total deposits from customers	435,020	100.0%	530,573	100.0%	618,412	100.0%

(1) Includes the head office.

Distribution of Deposits by Remaining Maturity

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

	As of December 31, 2006													
	Overdue/repayable on demand		Due less than 3 months		Due between 3 to 12 months		Due between 1 to 5 years		Due more than 5 years		Undated		Total	
	Amount	% of total deposits	Amount	% of total deposits	Amount	% of total deposits	Amount	% of total deposits	Amount	% of total deposits	Amount	% of total deposits	Amount	% of total deposits
	(in millions of RMB, except percentages)													
Corporate deposits ...	266,806	43.1%	118,226	19.1%	88,117	14.2%	35,785	5.8%	3,617	0.6%	—	—	512,551	82.8%
Personal deposits	26,278	4.3	41,901	6.8	31,533	5.1	6,092	1.0	57	0.0	—	—	105,861	17.2
Total deposits from customers	293,084	47.4%	160,127	25.9%	119,650	19.3%	41,877	6.8%	3,674	0.6%	—	—	618,412	100.0%

Subordinated Debt/Bonds

In accordance with approvals of the CBRC and the PBOC, we issued a series of subordinated debt in 2004 and a series of subordinated bonds in 2006, each with an aggregate face value of RMB 6.0 billion. The 2004 series of subordinate debt consisted of four tranches maturing from June 2010 to September 2010, with three tranches bearing an interest rate of the PBOC one-year fixed deposit rate plus an interest margin of 2.72% and the remaining tranche bearing an interest rate of the PBOC one-year fix deposit rate plus an interest margin of 2.60%. The 2006 series of subordinated bonds consisted of two tranches. One tranche, with a face value of RMB 2.0 billion, matures in June 2021, and bears an interest rate of 4.12%. We have an option to redeem this tranche on June 22, 2016. If we do not exercise such option, the interest rate will increase to 7.12% commencing in June 2016. The other tranche, with a face value of RMB 4.0 billion, matures in June 2016, and bears an interest rate of 3.75%. We have an option to redeem this tranche on June 22, 2011. If we do not exercise such option, the interest rate will increase to 6.75% commencing in June 2011.

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Other Liabilities

In addition to customer deposits and subordinated debt/bonds issued, our total liabilities include amounts due to banks and other financial institutions, amounts due to central banks, current tax liabilities, deferred tax liabilities and other liabilities and provisions. As of December 31, 2006, 2005 and 2004, the aggregate amounts of our liabilities other than deposits from customers, subordinated debt and subordinated bonds were RMB 44,617 million, RMB 34,804 million and RMB 43,662 million, respectively, representing 6.6%, 6.1% and 9.0%, respectively, of our total liabilities as of such dates.