

DESCRIPTION OF OUR ASSETS AND LIABILITIES

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

ASSETS

As of June 30, 2009, our total assets amounted to RMB1,410.0 billion, an increase of 33.7% compared to RMB1,054.4 billion as of December 31, 2008. Our total assets increased by 14.7% to RMB1,054.4 billion as of December 31, 2008 compared to RMB918.8 billion as of December 31, 2007, which increased by 26.7% compared to RMB725.1 billion as of December 31, 2006. The growth from December 31, 2006 to June 30, 2009 was primarily due to the growth in loans to customers, a key component of our total assets, and reflected the overall growth of our business.

Our investment securities and trading assets increased by 17.6% to RMB157.3 billion as of June 30, 2009 from RMB133.8 billion as of December 31, 2008, after a decrease from RMB156.6 billion as of December 31, 2007. The decrease in 2008 reflected (i) the decrease of the value of our available-for-sale securities held by us, and (ii) our increased position in higher-yield asset categories other than debt securities. The increase of investment securities and trading assets in the first half of 2009 was primarily due to the increased liquidity resulting from a significant increase in deposits from customers.

Other important components of our assets include balances with central bank and placements with banks and other financial institutions. The following table sets forth, at the dates indicated, the components of our total assets.

	2006		2007		2008		2009	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Loans and advances to customers, gross	472,088	65.1%	554,959	60.4%	658,360	62.4%	903,934	64.1%
Allowances for impairment losses	(6,417)	(0.9%)	(7,663)	(0.8%)	(11,885)	(1.1%)	(13,256)	(0.9%)
Loans and advances to customers, net	465,671	64.2%	547,296	59.6%	646,475	61.3%	890,678	63.2%
Investment securities and trading assets	100,692	13.9%	156,552	17.0%	133,784	12.7%	157,313	11.2%
Balances with central bank . . .	105,205	14.5%	106,992	11.7%	181,878	17.2%	134,641	9.5%
Placements with banks and other financial institutions, net ⁽¹⁾	32,148	4.4%	80,235	8.7%	52,408	5.0%	174,595	12.4%
Cash and due from banks and other financial institutions ⁽²⁾	11,564	1.6%	11,986	1.3%	17,648	1.7%	24,080	1.7%
Other assets ⁽³⁾	9,807	1.4%	15,776	1.7%	22,157	2.1%	28,707	2.0%
Total assets	725,087	100%	918,837	100%	1,054,350	100%	1,410,014	100%

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Notes:

- (1) Placements with banks and other financial institutions are net of the related allowance for impairment losses of RMB96 million, RMB94 million, RMB92 million and RMB34 million as of December 31, 2006, 2007 and 2008 and as of June 30, 2009, respectively.
- (2) We did not record any related allowance for impairment losses for cash and due from banks and other financial institutions as of December 31, 2006, 2007 and 2008 and June 30, 2009, respectively.
- (3) Other assets consist primarily of property, plant and equipment, finance lease receivables, deferred income tax assets, etc.

Loans to Customers

We provide a broad range of loan products to our customers through our branch network and SBUs. Our loans to customers, net of the allowance for impairment losses, represented 63.2%, 61.3%, 59.6% and 64.2% of our total assets as of June 30, 2009 and December 31, 2008, 2007 and 2006, respectively.

Unless otherwise indicated in this prospectus, the following discussion is based on our total loans to customers, before taking into account the related allowance for impairment losses, rather than our net loans to customers. Our loans are reported net of the allowance for impairment losses on our consolidated balance sheet.

As of June 30, 2009, our total loans to customers amounted to RMB903.9 billion, an increase of 37.3% from RMB658.4 billion as of December 31, 2008. Our total loans to customers increased by 18.6% to RMB658.4 billion as of December 31, 2008 from RMB555.0 billion as of December 31, 2007, which in turn increased by 17.6% from RMB472.1 billion as of December 31, 2006.

Distribution of Loans by Product Type

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

	As of December 31,						As of June 30,	
	2006		2007		2008		2009	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)								
Corporate loans	345,544	73.2%	420,837	75.8%	485,858	73.8%	663,342	73.4%
Discounted bills	57,970	12.3%	34,662	6.3%	63,931	9.7%	115,939	12.8%
Retail loans	68,574	14.5%	99,460	17.9%	108,571	16.5%	124,653	13.8%
Total loans to customers	<u>472,088</u>	<u>100%</u>	<u>554,959</u>	<u>100%</u>	<u>658,360</u>	<u>100%</u>	<u>903,934</u>	<u>100%</u>

Corporate loans have historically been the largest component of our loan portfolio. In recent years, we have also increased our efforts to expand our business in retail loans. Both our corporate loans and retail loans grew during the Track Record Period.

Discounted bills are an important component of our total loan portfolio as well as an important instrument in managing our liquidity. We adjust the proportion of discounted bills to manage our loan scale and liquidity. When we have sufficient liquidity, we may consider to purchase discounted bills (normally with a maturity ranging from seven days to six months depending on the availability of our liquidity) from other banks to increase return. On the other hand, we may consider selling a portion of the discounted bills to increase our liquidity when necessary.

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Corporate Loans

Corporate loans represented 73.4%, 73.8%, 75.8% and 73.2% of our total loans to customers as of June 30, 2009 and December 31, 2008, 2007 and 2006, respectively. The following table sets forth, at the dates indicated, our corporate loans by product type.

	As of December 31,						As of June 30,	
	2006		2007		2008		2009	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Short-term loans	210,908	61.0%	238,016	56.6%	272,301	56.0%	338,404	51.0%
Medium- and long-term loans	134,636	39.0%	182,821	43.4%	213,557	44.0%	324,938	49.0%
Total corporate loans	<u>345,544</u>	<u>100%</u>	<u>420,837</u>	<u>100%</u>	<u>485,858</u>	<u>100%</u>	<u>663,342</u>	<u>100%</u>

As of June 30, 2009, corporate loans amounted to RMB663.3 billion, an increase of 36.5% from RMB485.9 billion as of December 31, 2008. Corporate loans increased by 15.5% to RMB485.9 billion as of December 31, 2008 from RMB420.8 billion as of December 31, 2007, which in turn increased by 21.8% from RMB345.5 billion as of December 31, 2006. The overall increase in corporate loans from December 31, 2006 to June 30, 2009 was in line with our continued business expansion. The growth rate from 2006 to 2007 was higher compared to the growth rate from 2007 to 2008 mainly because in 2008, (i) the demand for loans decreased due to the economic downturn, and (ii) we refrained from extending new corporate loans to borrowers in certain industries which we believe have relatively high risks of defaults in light of the global economic downturn. Corporate loans increased significantly in the first half of 2009, primarily due to increased market demand for corporate loans as a result of the PRC government's fiscal stimulus measures to boost economic growth and an anticipated economic recovery in the PRC as well as our business expansion over the period.

As of June 30, 2009, short-term loans amounted to RMB338.4 billion, an increase of 24.3% from RMB272.3 billion as of December 31, 2008. Short-term loans increased by 14.4% to RMB272.3 billion as of December 31, 2008 from RMB238.0 billion as of December 31, 2007, which in turn increased by 12.9% from RMB210.9 billion as of December 31, 2006. As a percentage of our total corporate loan portfolio, short-term loans accounted for 51.0%, 56.0%, 56.6% and 61.0% of our total corporate loans as of June 30, 2009 and December 31, 2008, 2007 and 2006, respectively.

As of June 30, 2009, medium- and long-term loans amounted to RMB324.9 billion, an increase of 52.2% from RMB213.6 billion as of December 31, 2008. Medium- and long-term loans increased by 16.8% to RMB213.6 billion as of December 31, 2008 from RMB182.8 billion as of December 31, 2007, which in turn increased by 35.8% from RMB134.6 billion as of December 31, 2006. As a percentage of our total corporate loan portfolio, medium- and long-term accounted for 49.0%, 44.0%, 43.4% and 39.0% of our total loans as of June 30, 2009 and December 31, 2008, 2007 and 2006, respectively.

The continuous increase of medium- and long-term loans as a percentage of our total corporate loans during the Track Record Period was primarily attributable to a combination of (i) the increasing market demand for medium- and long-term loans during the Track Record Period and (ii) the increase of project loans to our corporate customers. We have adopted the following measures to manage the associated risks relating to the medium- and long-term loans:

- We actively monitor our assets quality and composition from time to time. For each year, we set a quota for the total amount of medium- and long-term loans to be granted in current year and adjust such quota from time to time during the year.
- The grant of medium- and long-term loans must comply with our credit policy guidelines. Our medium- and long-term loans are generally granted to infrastructure projects that are encouraged by the state, such as construction projects of railways, highways and airports. Our credit policy guidelines also set out certain industries that may involve higher credit risk

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in the current year and require our branches and SBUs to strengthen the risk management for medium- and long-term loans to such industries.

- In addition, we set out other conditions for the granting of medium- and long-term loans, including, among others, checking the industry policy of the state with respect to the project, the necessary approvals required for and environmental assessment results relating to the project, as well as whether the parties to the project have made their own investment.
- We emphasize the importance of post-disbursement monitoring for medium- and long-term loans. In particular, we strictly monitor the use of loans and the progress of the project. Our customer managers maintain regular contact with the borrowers by periodic visits to the borrower. We verify the borrowers' ongoing compliance with the terms of the loan agreements and their financial statements if necessary to monitor potential risks associated with the loans.

Discounted Bills

Discounted bills represented 12.8%, 9.7%, 6.3% and 12.3% of our total loans to customers as of June 30, 2009 and December 31, 2008, 2007 and 2006, respectively. The following table sets forth, at the dates indicated, our discounted bills by type of obligor.

	As of December 31,						As of June 30,	
	2006		2007		2008		2009	
	<u>Amount</u>	<u>% of total</u>	<u>Amount</u>	<u>% of total</u>	<u>Amount</u>	<u>% of total</u>	<u>Amount</u>	<u>% of total</u>
	(in millions of RMB, except percentages)							
Bank acceptance bills	52,239	90.1%	29,427	84.9%	53,778	84.1%	99,014	85.4%
Commercial acceptance bills	5,731	9.9%	5,235	15.1%	10,153	15.9%	16,925	14.6%
Total discounted bills	<u>57,970</u>	<u>100%</u>	<u>34,662</u>	<u>100%</u>	<u>63,931</u>	<u>100%</u>	<u>115,939</u>	<u>100%</u>

Discounted bills increased significantly by 84.4% to RMB63.9 billion as of December 31, 2008 from RMB34.7 billion as of December 31, 2007, and further increased by 81.4% to RMB115.9 billion as of June 30, 2009. The increase was primarily attributable to a combination of (i) an overall increase in market demand for discounted bills, in particular bank acceptance bills, and (ii) our efforts to actively increase our position in discounted bills in response to the PRC government's macroeconomic policy. Discounted bills decreased to RMB34.7 billion as of December 31, 2007 from RMB58.0 billion as of December 31, 2006. The decrease reflected, among other things, our increased position in other higher-yield asset categories.

In general, bank acceptance bills have lower impaired loan ratios than commercial acceptance bills, but commercial acceptance bills bear higher discount rates. While bank acceptance bills are still our major discounted bill product, we have sought to selectively increase commercial acceptance bills as a percentage of total discounted bills outstanding to increase our profitability. As a result, the bank acceptance bills as a percentage of total discounted bills decreased from 90.1% in 2006, to 84.9% in 2007 and further decreased to 84.1% in 2008. Commercial acceptance bills increased from 9.9% in 2006, to 15.1% in 2007 and further increased to 15.9% in 2008. As of June 30, 2009, the proportion of bank acceptance bills increased slightly to 85.4%, while the proportion of commercial acceptance bills decreased slightly to 14.6%.

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Retail Loans

Retail loans represented 13.8%, 16.5%, 17.9% and 14.5% of our total loans to customers as of June 30, 2009 and December 31, 2008, 2007 and 2006, respectively. The following table sets forth, at the dates indicated, our retail loans by product type.

	As of December 31,						As of June 30,	
	2006		2007		2008		2009	
	<u>Amount</u>	<u>% of total</u>	<u>Amount</u>	<u>% of total</u>	<u>Amount</u>	<u>% of total</u>	<u>Amount</u>	<u>% of total</u>
	(in millions of RMB, except percentages)							
Residential mortgage loans	65,334	95.3%	89,589	90.1%	87,401	80.5%	92,940	74.6%
Credit card advances	1,169	1.7%	5,426	5.4%	12,727	11.7%	12,755	10.2%
Others ⁽¹⁾	2,071	3.0%	4,445	4.5%	8,443	7.8%	18,958	15.2%
Total retail loans	<u>68,574</u>	<u>100%</u>	<u>99,460</u>	<u>100%</u>	<u>108,571</u>	<u>100%</u>	<u>124,653</u>	<u>100%</u>

Note:

(1) Consist primarily of “Shang Dai Tong” (商貸通), as well as personal consumption loans such as home improvement loans, education loans and automobile loans.

As of June 30, 2009, our retail loans amounted to RMB124.7 billion, an increase of 14.8% from RMB108.6 billion as of December 31, 2008. Retail loans increased by 9.2% to RMB108.6 billion as of December 31, 2008 from RMB99.5 billion as of December 31, 2007, which in turn increased by 45.0% from RMB68.6 billion as of December 31, 2006. The continuous increase of our retail loans reflects, among other things, our focus on expanding our retail loan business.

As of June 30, 2009, our residential mortgage loans amounted to RMB92.9 billion, an increase of 6.3% from RMB87.4 billion as of December 31, 2008. Residential mortgage loans decreased slightly by 2.4% to RMB87.4 billion as of December 31, 2008 from RMB89.6 billion as of December 31, 2007, which in turn increased by 37.1% from RMB65.3 billion as of December 31, 2006. The high growth rate of residential mortgage loans in 2007 reflected the boom in China’s residential real estate market during that period, particularly in the affluent provinces and coastal cities where we had significant residential mortgage loan exposure. The decrease in 2008 was primarily attributable to (i) an increased rate of mortgage repayment ahead of schedule by customers in early 2008 following the PBOC’s raising of the benchmark interest rate several times in late 2007; and (ii) our adoption of more prudent lending policies when the residential real estate market began to cool down in 2008. The balance of our residential mortgage loans as of June 30, 2009 increased relatively slightly because China’s residential real estate market recovered and the demand for residential properties increased in the first half of 2009.

As of June 30, 2009, credit card advances amounted to RMB12.8 billion, increased slightly from RMB12.7 billion as of December 31, 2008. Credit card advances increased by 134.6% to RMB12.7 billion as of December 31, 2008 from RMB5.4 billion as of December 31, 2007, which in turn increased by 364.2% from RMB1.2 billion as of December 31, 2006. The significant growth in credit card advances from December 31, 2006 to December 31, 2008 reflected our focus on expanding our credit card business. The growth rate of the credit card advances slowed down in the first half of 2009, mainly due to the decrease in the number of newly issued credit cards during the same period, reflecting the more conservative consumption attitude of credit card users in China under the previous economic environment.

Our other retail loans consist primarily of “Shang Dai Tong” (商貸通), as well as personal consumption loans such as home improvement loans, education loans and automobile loans. Other retail loans increased significantly by 124.5% to RMB19.0 billion as of June 30, 2009 from RMB8.4 billion as of December 31, 2008, primarily driven by an increase in “Shang Dai Tong” (商貸通), increased by 89.9% from RMB4.4 billion and by 114.6% from 2.1 billion as of December 31, 2007 and 2006, respectively.

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Distribution of Corporate Loans by Industry

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

	As of December 31,						As of June 30,	
	2006		2007		2008		2009	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)								
Manufacturing	75,202	21.8%	96,417	22.9%	93,655	19.3%	118,441	17.9%
Real estate.	52,714	15.3%	69,308	16.5%	84,976	17.5%	95,070	14.3%
Transportation, storage and post services.	39,743	11.5%	46,561	11.0%	65,383	13.5%	79,195	11.9%
Leasing and commercial services ⁽¹⁾	18,449	5.3%	25,255	6.0%	47,512	9.8%	78,995	11.9%
Water, environment and public utility management	32,592	9.4%	35,905	8.5%	37,907	7.8%	70,676	10.7%
Production and supply of electric power, gas and water.	39,349	11.4%	48,292	11.5%	42,890	8.8%	54,930	8.3%
Mining	10,045	2.9%	14,772	3.5%	26,565	5.5%	36,651	5.5%
Public management and social organizations.	9,410	2.7%	7,925	1.9%	13,147	2.7%	33,864	5.1%
Construction	21,860	6.3%	23,481	5.6%	23,261	4.8%	29,702	4.5%
Wholesale and retail	16,934	4.9%	21,124	5.0%	19,927	4.1%	25,377	3.8%
Education and public services	14,485	4.2%	16,739	4.0%	13,319	2.7%	20,442	3.1%
Financing.	1,794	0.5%	2,332	0.6%	3,060	0.6%	4,835	0.7%
Information transmission, IT services and software	5,818	1.7%	3,905	0.9%	4,355	0.9%	4,744	0.7%
Others ⁽²⁾	7,149	2.1%	8,821	2.1%	9,901	2.0%	10,420	1.6%
Total corporate loans.	345,544	100%	420,837	100%	485,858	100%	663,342	100%

Notes:

- (1) Consist primarily of lending to asset management, leasing, advertising and municipal infrastructure construction.
- (2) Consist primarily of lending to scientific research, technical service, geological exploration, hotel and restaurants industries etc.

The aggregate amount of loans to borrowers in the (i) manufacturing; (ii) real estate; (iii) transportation, storage and post services; (iv) leasing and commercial services; (v) water, environment and public utility management; and (vi) production and supply of electric power, gas and water industries, our six largest industries in terms of aggregate loan exposure, represented 75.0%, 76.7%, 76.4% and 74.7% of our total corporate loans as of June 30, 2009 and December 31, 2008, 2007 and 2006, respectively.

Each year, the Credit Assessment Department of our headquarters prepares guidelines regarding our overall credit policy based on detailed internal research and recommendations provided by the other departments at our headquarters, the SBUs and the branches. In the credit policy guidelines, the Credit Assessment Department specifies recommended credit quotas for particular industries, indicating whether lending to borrowers in those industries should be encouraged or restricted within our Bank. The credit policy guidelines are submitted to our Risk Management Commission for approval. After being approved, the credit policy guidelines are distributed to the other relevant departments at our headquarters, the SBUs and the branches, which, in accordance with the policies relating to particular industries, customers and regions relevant to their businesses, prepare their own credit policies with reference to the credit policy guidelines. The other departments, the SBUs and the branches provide the Credit Assessment

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Department with their feedback from time to time so that the Credit Assessment Department may further adjust the overall credit policy guidelines during the year.

Distribution of Loans by Geographical Region

We classify loans geographically based on the location of the branch that originated the loan. Our branches generally originate loans to borrowers located in their respective geographical areas. The following table sets forth, at the dates indicated, the distribution of our loan portfolio by geographical region.

	As of December 31,						As of June 30,	
	2006		2007		2008		2009	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Northern China ⁽¹⁾	159,511	33.8%	174,754	31.5%	191,011	29.0%	317,062	35.1%
Eastern China	150,157	31.8%	186,760	33.7%	236,412	35.9%	291,491	32.2%
Southern China	81,462	17.3%	92,202	16.6%	95,388	14.5%	93,895	10.4%
Others ⁽²⁾	<u>80,958</u>	<u>17.1%</u>	<u>101,243</u>	<u>18.2%</u>	<u>135,549</u>	<u>20.6%</u>	<u>201,486</u>	<u>22.3%</u>
Total loans to customers	<u>472,088</u>	<u>100%</u>	<u>554,959</u>	<u>100%</u>	<u>658,360</u>	<u>100%</u>	<u>903,934</u>	<u>100%</u>

Notes:

(1) Loans originated by our headquarters are included in Northern China. Loans originated by the SBUs are included in the branches at which the SBUs or their sub-branches are located, except that loans originated by the Trade Finance SBU are included in Northern China. See "Financial Information — Summary Segment Operating Results".

(2) Include Pengzhou Minsheng Township Bank Co., Ltd. and the following branches: Xi'an, Dalian, Chongqing, Chengdu, Kunming, Wuhan, Changsha, Zhengzhou and Changchun.

Distribution of Corporate Loans by Size

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

	As of December 31,												As of June 30,			
	2006				2007				2008				2009			
	Amount	% of total	Number of borrowers	Average borrowing amount ⁽¹⁾	Amount	% of total	Number of borrowers	Average borrowing amount ⁽¹⁾	Amount	% of total	Number of borrowers	Average borrowing amount ⁽¹⁾	Amount	% of total	Number of borrowers	Average borrowing amount ⁽¹⁾
	(in millions of RMB, except percentages and the number of borrowers)															
Up to RMB10 million	5,565	1.6%	962	6	6,618	1.6%	1,120	6	8,249	1.7%	1,322	6	9,607	1.4%	1,680	6
Over RMB10 million to RMB50 million	42,867	12.4%	1,432	30	46,023	10.9%	1,585	29	48,430	10.0%	1,731	28	58,416	8.8%	2,045	29
Over RMB50 million to RMB100 million	42,432	12.3%	509	83	50,371	12.0%	608	83	53,497	11.0%	645	83	62,325	9.4%	750	83
Over RMB100 million to RMB500 million	167,871	48.6%	707	237	202,074	48.0%	847	239	228,654	47.1%	938	244	303,349	45.7%	1,199	253
Over RMB500 million to RMB1 billion	65,134	18.8%	91	716	83,747	19.9%	116	722	98,770	20.3%	134	737	118,254	17.9%	155	763
Over RMB1 billion	<u>21,675</u>	<u>6.3%</u>	<u>16</u>	1,355	<u>32,004</u>	<u>7.6%</u>	<u>23</u>	1,391	<u>48,258</u>	<u>9.9%</u>	<u>32</u>	1,508	<u>111,391</u>	<u>16.8%</u>	<u>60</u>	1,857
Total corporate loans	<u>345,544</u>	<u>100%</u>	<u>3,717</u>	93	<u>420,837</u>	<u>100%</u>	<u>4,299</u>	98	<u>485,858</u>	<u>100%</u>	<u>4,802</u>	101	<u>663,342</u>	<u>100%</u>	<u>5,889</u>	113

Note:

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

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Distribution of Loans by Collateral

Loans secured by collateral, pledged assets and guarantees represented, in the aggregate, 70.3%, 73.6%, 72.8% and 76.6% of our total loan portfolio as of June 30, 2009 and December 31, 2008, 2007 and 2006, respectively. If a loan is secured by more than one form of collateral, the distribution is based on the primary form of collateral. The following table sets forth, at the dates indicated, the distribution of our loan portfolio by the type of collateral.

	As of December 31,						As of June 30,	
	2006		2007		2008		2009	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)								
Unsecured loans	110,485	23.4%	151,018	27.2%	173,421	26.4%	268,672	29.7%
Guaranteed loans	131,829	27.9%	142,165	25.6%	150,383	22.8%	194,880	21.6%
Secured loans								
— Collateralized loans ⁽¹⁾	133,396	28.3%	184,585	33.3%	220,754	33.5%	267,009	29.5%
— Pledged loans ⁽²⁾	96,378	20.4%	77,191	13.9%	113,802	17.3%	173,373	19.2%
Total loans to customers	472,088	100%	554,959	100%	658,360	100%	903,934	100%

Notes:

- (1) Represent loans secured by tangible assets remaining in the borrower's possession, which consist primarily of loans secured by real estate and plant and equipment.
- (2) Consist primarily of loans secured by deposits, financial instruments (including discounted bills) and rights to future cash flows.

During the Track Record Period, the percentage of unsecured loans increased from 23.4% as of December 31, 2006 to 29.7% as of June 30, 2009, mainly because: (i) our overall customer base is optimized along with our SBUs reform and as a result, we have granted more unsecured loans to our customers; and (ii) the expansion of our credit card business had resulted in increases in unsecured loans. In order to effectively manage the potential risks associated with unsecured loans, we have implemented very restrictive conditions for granting unsecured loans. Each and all of the following conditions must be met for granting unsecured loans to a corporate loan applicant:

- The applicant must be a customer with a high customer credit rating, namely, higher than A grade (inclusive), pursuant to our customer rating system. See "Risk Management — Credit Risk Management — Credit Risk Management for Corporate Loans — Customer Ratings";
- The applicant's business must fall within those encouraged industries pursuant to our credit policy guidelines. See "Risk Management — Credit Risk Management — Credit Risk Management for Corporate Loans — Credit Policy Guidelines"; and
- The applicant does not have any bad credit record.

Loans secured by tangible assets are generally subject to loan-to-value ratio limits based on the type of collateral. See "Risk Management — Credit Risk Management — Credit Risk Management for Corporate Loans — Collateral Appraisal." Guarantors are subject to the same credit approval process as borrowers. Since guaranteed loans are generally not secured by any assets of the guarantors and some guarantors are related parties to the borrowers or otherwise having business relationship with the borrowers, we have implemented stricter credit policies on guaranteed loans. As a percentage of our loan portfolio, guaranteed loans decreased to 21.6% as of June 30, 2009 from 22.8% as of December 31, 2008, 25.6% as of December 31, 2007 and 27.9% as of December 31, 2006.

DESCRIPTION OF OUR ASSETS AND LIABILITIES
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The following table sets forth a breakdown of the distribution of our loans by collateral in terms of corporate banking and retail banking:

	As of December 31,						As of June 30,	
	2006		2007		2008		2009	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Corporate Banking								
Unsecured loans	109,271	23.1%	145,557	26.2%	160,555	24.4%	241,130	26.7%
Guaranteed loans	131,142	27.8%	141,635	25.5%	149,775	22.7%	192,394	21.3%
Secured loans								
— Collateralized loans	67,462	14.3%	92,004	16.6%	126,970	19.3%	174,283	19.3%
— Pledged loans	95,639	20.3%	76,303	13.7%	112,489	17.1%	171,474	19.0%
Subtotal	403,514	85.5%	455,499	82.0%	549,789	83.5%	779,281	86.3%
Retail Banking								
Unsecured loans	1,214	0.3%	5,461	1.0%	12,866	2.0%	27,542	3.0%
Guaranteed loans	687	0.1%	530	0.1%	608	0.1%	2,486	0.3%
Secured loans								
— Collateralized loans	65,934	14.0%	92,581	16.7%	93,784	14.2%	92,726	10.2%
— Pledged loans	739	0.1%	888	0.2%	1,313	0.2%	1,899	0.2%
Subtotal	68,574	14.5%	99,460	18.0%	108,571	16.5%	124,653	13.7%
Total	<u>472,088</u>	<u>100%</u>	<u>554,959</u>	<u>100%</u>	<u>658,360</u>	<u>100%</u>	<u>903,934</u>	<u>100%</u>

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. As of June 30, 2009 and December 31, 2008, 2007 and 2006, our largest aggregate loan exposure to a single borrower was 9.2%, 4.2%, 3.6%, and 5.8%, respectively, of our regulatory capital. We were thus in compliance with this requirement. As of June 30, 2009, the aggregate amount of loans to our ten largest single borrowers totaled RMB38.0 billion, representing 4.2% of our total loans to customers.

DESCRIPTION OF OUR ASSETS AND LIABILITIES
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The following table sets forth, as of June 30, 2009, the loans to our ten largest single borrowers (excluding group borrowers), all of which were performing at that date.

		As of June 30, 2009		
<u>Industry</u>		<u>Amount</u>	<u>% of total</u>	<u>% of regulatory capital⁽¹⁾</u>
		(in millions of RMB, except percentages)		
Borrower A	Public management and social organizations	7,570	0.8%	9.2%
Borrower B	Leasing and commercial services	5,041	0.6%	6.2%
Borrower C	Public management and social organizations	4,000	0.4%	4.9%
Borrower D	Transportation, storage and post services	3,500	0.4%	4.3%
Borrower E	Public management and social organizations	3,500	0.4%	4.3%
Borrower F	Public management and social organizations	3,100	0.3%	3.8%
Borrower G	Manufacturing	3,016	0.3%	3.7%
Borrower H	Public management and social organizations	2,900	0.3%	3.5%
Borrower I	Manufacturing	2,900	0.3%	3.5%
Borrower J	Public management and social organizations	<u>2,500</u>	<u>0.3%</u>	<u>3.1%</u>
Total		<u>38,027</u>	<u>4.2%</u>	<u>46.5%</u>

Note:

(1) Represents loan amounts as a percentage of our regulatory capital. See "Supervision and Regulation — PRC Banking Supervision and Regulation — Supervision Over Capital Adequacy."

We have implemented policies and procedures designed to identify borrower applicants belonging to the same group in our credit extension process. Based on the information available to us, as of June 30, 2009, the aggregate amount of loans to our ten largest group borrowers (excluding single borrowers) totaled RMB29.5 billion, representing 3.3% of our total loans to customers and 36.0% of our regulatory capital.

DESCRIPTION OF OUR ASSETS AND LIABILITIES
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The following table sets forth, as of June 30, 2009, the loans to our ten largest group borrowers (excluding single borrowers), all of which were performing at that date.

		As of June 30, 2009		
<u>Industry</u>		<u>Amount</u>	<u>% of total</u>	<u>% of regulatory capital⁽¹⁾</u>
		(in millions of RMB, except percentages)		
Borrower A	Production and supply of electric power, gas and water	5,001	0.6%	6.1%
Borrower B	Production and supply of electric power, gas and water	3,722	0.4%	4.6%
Borrower C	Production and supply of electric power, gas and water	3,400	0.4%	4.2%
Borrower D	Manufacturing	3,140	0.3%	3.8%
Borrower E	Manufacturing	2,738	0.3%	3.3%
Borrower F	Production and supply of electric power, gas and water	2,708	0.3%	3.3%
Borrower G	Construction	2,421	0.3%	3.0%
Borrower H	Transportation, storage and post services	2,203	0.2%	2.7%
Borrower I	Construction	2,078	0.2%	2.5%
Borrower J	Manufacturing	<u>2,047</u>	<u>0.2%</u>	<u>2.5%</u>
Total		<u>29,457</u>	<u>3.3%</u>	<u>36.0%</u>

Note:

(1) Represents loan amounts as a percentage of our regulatory capital. See "Supervision and Regulation — PRC Banking Supervision and Regulation — Supervision Over Capital Adequacy."

According to the Guidelines on the Management of Risks of Credits Granted by Commercial Banks to Group Clients «商業銀行集團客戶授信業務風險管理指引» published by the CBRC on October 23, 2003, a commercial bank may determine the scope of single and group customers according to the CBRC's guidelines and the actual requirements of its risk management arising out of its management of risks of its credit extension business. The China Minsheng Bank Provisional Measures of the Management of Group Customers «中國民生銀行集團客戶管理暫行辦法» filed with the CBRC sets out rules relating to the concept, scope, identification and determination of group customers. Our PRC legal advisors, Grandall Legal Group (Beijing), have confirmed that the methods used by us to classify group borrowers comply with the relevant CBRC requirements.

However, information regarding the group affiliations of individual corporate entities may not be available to us on a timely basis or at all. See "Risk Factors — Risks Relating to the Banking Industry in the PRC — The effectiveness of our risk management system is affected by the quality and scope of information available in the PRC" and "Risk Factors — Risks Relating to Our Business — We are subject to a number of risks, including credit risk, market risk, liquidity risk and operational risk, and cannot assure you that our risk management and internal control policies and procedures can protect us against such risks." The applicable PRC banking guidelines recommend that commercial banks limit loans to any borrowers belonging to a single group to no more than 15% of their regulatory capital. Based on the information available to us, as of June 30, 2009 and December 31, 2008, 2007 and 2006, none of our loans to any group borrowers exceeded 15% of our regulatory capital.

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Maturity Profile of Loan Portfolio

The following table sets forth, as of June 30, 2009, our loan products, net of related allowance for impairment losses, by remaining maturity.

	As of June 30, 2009							Total
	Due less than 3 months	Due over 3 months up to 1 year	Due between 1 and 5 years	Due more than 5 years	Overdue less than 90 days	Overdue 90 days to one year	Overdue more than one year	
	(in millions of RMB)							
Corporate loans	86,210	278,614	211,245	73,121	581	1,662	494	651,927
Discounted bills	65,203	50,391	—	—	17	—	—	115,611
Retail loans	13,215	10,422	31,287	64,957	2,458	742	59	123,140
Total loans to customers, net	<u>164,628</u>	<u>339,427</u>	<u>242,532</u>	<u>138,078</u>	<u>3,056</u>	<u>2,404</u>	<u>553</u>	<u>890,678</u>

As of June 30, 2009, 56.6% of our total loans to customers were due in one year or less. Short-term corporate loans primarily consist of working capital loans and represent a majority of our corporate loan portfolio. We may renew a portion of our corporate loans at maturity at the borrower's request and, when we do so, these loans are treated, and are subject to the same credit approval policies and procedures, as newly-granted loans. All of our discounted bills are short-term and are generally due within six months. The majority of our retail loans have a term of one year or more, primarily because the largest component of our retail loans consists of mortgage loans, which generally have longer terms.

Loan Interest Rate Profile

Interest rates have historically been highly regulated in China and are gradually being liberalized. See "Supervision and Regulation — PRC Banking Supervision and Regulation — Pricing of Products and Services." Interest rates on RMB-denominated loans are subject to resetting after a change in the applicable PBOC benchmark rates. Since January 1, 2004, under applicable regulations of the PRC government, banks have been allowed to negotiate the terms of interest rates on newly granted RMB-denominated loans with a maturity of longer than one year. To manage interest risk, we generally set adjustable interest rates on most of our corporate loans and retail loans. Only a small portion of our loans with a maturity of longer than one year have fixed interest rates. The adjustable interest rates of our corporate loans depend on our negotiation with customers and may be adjusted on the next day, or on the next interest payable day following the date of a change in the applicable benchmark interest rate.

Under applicable PBOC regulations, since March 17, 2005, commercial banks have been allowed to determine their own interest rates for residential mortgage loans above the minimum benchmark interest rate set by the PBOC. We generally adjust the interest rates of our residential mortgage loans on January 1 of the next year following the date when the applicable benchmark interest rates change.

Asset Quality of Our Loan Portfolio

We measure and monitor the asset quality of our loan portfolio through our loan classification system. We classify our loans using a five-category loan classification system, which complies with the CBRC's guidelines. See "Supervision and Regulation — PRC Banking Supervision and Regulation — Loan Classification, Allowances and Write-offs — Loan Classification."

Loan Classification Criteria

In determining the classification of our loan portfolio, we apply a series of criteria that are derived from the CBRC guidelines. These criteria are designed to assess the likelihood of repayment by the borrower and the collectability of principal and interest on the loan. Our loan classification

DESCRIPTION OF OUR ASSETS AND LIABILITIES

criteria focus on a number of factors, to the extent applicable, including (i) the borrower's ability to repay the loan, based on such factors as the borrower's cash flows, financial condition and other non-financial factors affecting the borrower's repayment ability; (ii) the borrower's repayment record; (iii) the borrower's willingness to repay; (iv) the profitability of the project; (v) the guarantees provided for the loan; (vi) the legal responsibilities for loan repayment; and (vii) the credit management status of the Bank.

Corporate Loans and Discounted Bills

In applying the above criteria to corporate loans and discounted bills, we also take into account the length of time by which payments of principal or interest on a loan are overdue, the borrower's financial condition, the borrower's business cycle, and other factors. The key factors for each loan classification are listed below. This is not intended to be a complete list of all factors taken into account in classifying our loans.

Normal. The borrower can honor its contract and there is no reason to doubt that the loan principal and interest will not be repaid in full and on a timely basis.

- The industry that the borrower is in has good prospects; the borrower has a leading position within its industry and very strong competitive advantages.
- The borrower has robust operations and finances and can resist or withstand large and negative internal and external changes, has excellent loan repayment and profit-earning ability, and has stable and sufficient operational net cash flow.
- The borrower has excellent credit and strong financing ability, with multiple financing sources to satisfy its financing needs.
- The borrower has a good credit history, a strong inclination to repay loans, and no record of default with us or any other financial institution.

Special Mention. Even if the borrower currently has the ability to repay the loan principal and interest, there are still factors that could adversely affect its repayment ability.

- Changes such as those in macro-political policies, the economy, market, industry, and laws and regulations have had certain negative effects on the borrower's operations.
- There is reason to suspect that the borrower is using mergers, restructuring, spin-offs etc. to intentionally evade its bank debt obligations, however, the borrower has no overdue loan principal or interest.
- The borrower's profit-earning ability has diminished, and each of its financial indicators is below average industry levels or have declined to a specific extent.
- The guarantor's operational or credit situation has raised concerns, and collateral value is fluctuating or falling.
- Principal or interest is overdue for 90 days or less.

Substandard. The borrower's ability to repay is clearly in question. It cannot rely entirely on its normal operating revenues, and certain losses may ensue even when guarantees are enforced.

- The borrower has continued financial difficulties affecting its ability to continue its business operations, it has repayment difficulties, is unlikely to obtain new funds and is unable to repay debts to its other lenders.
- Other than the borrower's production and operations, the repayment of our loans to the borrower depends on enforcing guarantees and on other repayment sources, and even so, we expect to incur loss.
- Principal or interest is overdue between 90 to 180 days.

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Doubtful. The borrower is unable to repay loan principal and interest in full, and relatively large losses will certainly ensue even if guarantees are enforced.

- The borrower's operations are now in critical condition, production has been suspended or partially suspended, and fixed asset projects have been suspended or postponed.
- The borrower is insolvent and is unable to repay.
- We have already taken legal measures, but anticipate that even if we invoke legal proceedings, relatively large losses will still be incurred.
- Principal or interest is overdue between 180 to 360 days.

Loss. We will classify a loan as a loss if we are still unable to collect the loan principal and interest or can only collect a small portion of it, after taking all possible measures and necessary legal proceedings. The fact that principal or interest is overdue for 361 days or more is only a minor factor in our determination of whether a loan is a loss.

Retail Loans

In applying the loan classification criteria to retail loans, we primarily consider, among others, the length of time by which payments of principal or interest are overdue and the collateral provided to such loans.

The following tables set forth the key quantitative factors that we consider when classify retail loans.

For retail loans other than credit cards:

	Normal	Special mention	Substandard	Doubtful	Loss
Pledge	Not due	Overdue for 90 days or less	Overdue for 91 days or more	—	—
Mortgage	Not due	Overdue for 90 days or less	Overdue between 91 to 180 days	Overdue for 181 days or more	—
Guarantee	Not due	Overdue for 30 days or less	Overdue between 31 to 90 days	Overdue for 91 days or more	—
Unsecured	Not due	Overdue for 30 days or less	Overdue between 31 to 90 days	Overdue between 91 to 360 days	Overdue for 361 days or more

For credit cards:

Normal	Not due
Special mention	Overdue between 1 to 180 days
Substandard	Overdue between 181 to 270 days
Doubtful	Overdue between 271 to 360 days
Loss	Overdue for 361 days or more

DESCRIPTION OF OUR ASSETS AND LIABILITIES

Distribution of Loans by Loan Classification

The following tables set forth, at the dates indicated, the distribution of our loan portfolio by loan classification category. We use the term “non-performing loans” and “impaired loans” synonymously to refer to the loans identified as “impaired loans” in Note 3.(2).f.(iii) to the Accountant’s Report in Appendix I to this prospectus. See “Definitions.” Under our five-category loan classification system, our non-performing loans are classified as substandard, doubtful or loss, as applicable.

	As of December 31,						As of June 30,	
	2006		2007		2008		2009	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Normal	453,836	96.1%	540,521	97.4%	634,073	96.3%	880,855	97.4%
Special mention	12,359	2.6%	7,665	1.4%	16,366	2.5%	15,278	1.7%
Substandard	2,328	0.5%	2,292	0.4%	3,459	0.5%	2,813	0.3%
Doubtful	2,202	0.5%	2,736	0.5%	3,189	0.5%	2,464	0.3%
Loss	1,363	0.3%	1,745	0.3%	1,273	0.2%	2,524	0.3%
Total loans to customers	<u>472,088</u>	<u>100%</u>	<u>554,959</u>	<u>100%</u>	<u>658,360</u>	<u>100%</u>	<u>903,934</u>	<u>100%</u>
Non-performing loan ratio⁽¹⁾		1.25%		1.22%		1.20%		0.86%

Note:

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

	As of December 31,						As of June 30,	
	2006		2007		2008		2009	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Corporate loans								
Normal	328,984	95.2%	408,107	97.0%	465,678	95.8%	645,206	97.2%
Special mention	11,229	3.3%	6,526	1.5%	12,994	2.7%	11,287	1.7%
Substandard	2,115	0.6%	2,055	0.5%	3,138	0.6%	2,424	0.4%
Doubtful	1,875	0.5%	2,408	0.6%	2,781	0.6%	1,931	0.3%
Loss	1,341	0.4%	1,741	0.4%	1,267	0.3%	2,494	0.4%
Subtotal	<u>345,544</u>	<u>100%</u>	<u>420,837</u>	<u>100%</u>	<u>485,858</u>	<u>100%</u>	<u>663,342</u>	<u>100%</u>
Non-performing loan ratio⁽¹⁾		1.54%		1.47%		1.48%		1.03%
Discounted bills								
Normal	57,970	100%	34,662	100%	63,862	99.9%	115,929	100%
Special mention	—	—	—	—	—	—	10	0.0%
Substandard	—	—	—	—	15	0.0%	—	—
Doubtful	—	—	—	—	54	0.1%	—	—
Loss	—	—	—	—	—	—	—	—
Subtotal	<u>57,970</u>	<u>100%</u>	<u>34,662</u>	<u>100%</u>	<u>63,931</u>	<u>100%</u>	<u>115,939</u>	<u>100%</u>
Non-performing loan ratio⁽¹⁾		—		—		0.11%		—

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	As of December 31,						As of June 30,	
	2006		2007		2008		2009	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Retail loans								
Normal	66,882	97.5%	97,752	98.3%	104,533	96.3%	119,720	96.1%
Special mention	1,130	1.7%	1,139	1.2%	3,372	3.1%	3,981	3.2%
Substandard	213	0.3%	237	0.2%	306	0.3%	389	0.3%
Doubtful	327	0.5%	328	0.3%	354	0.3%	533	0.4%
Loss	22	0.0%	4	0.0%	6	0.0%	30	0.0%
Subtotal	<u>68,574</u>	100%	<u>99,460</u>	100%	<u>108,571</u>	100%	<u>124,653</u>	100%
Non-performing loan ratio ⁽¹⁾		0.82%		0.57%		0.61%		0.76%
Total loans to customers	<u><u>472,088</u></u>		<u><u>554,959</u></u>		<u><u>658,360</u></u>		<u><u>903,934</u></u>	

Note:

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

The non-performing loan ratio for our total loan portfolio was 0.86%, 1.20%, 1.22% and 1.25% as of June 30, 2009 and December 31, 2008, 2007 and 2006, respectively. The decrease in our non-performing loan ratio from December 31, 2006 to December 31, 2008 reflected an overall improvement in the asset quality of our loan portfolio, primarily attributable to the following factors:

- We continuously seek to improve our overall risk management system, especially our risk management organizational structure, policies, procedures and culture.
- We establish credit policy guidelines on an annual basis, and adjust such guidelines from time to time in accordance with market conditions and our business goal.
- With respect to existing loans, we continuously seek to improve our risk identification capacity with advanced technology and a more sensitive risk alert system and more stringent procedures.
- We have been able to collect problem loans more efficiently with the support of our Investment Banking SBU, which is responsible for the management, recovery and collection of non-performing loans transferred to it.

The significant decrease in the non-performing loan ratio in the first half of 2009 was attributable to, in addition to the above factors, our continuous efforts to recover problem loans.

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Changes to the Asset Quality of Our Loan Portfolio

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

	As of December 31,			As of June 30
	2006	2007	2008	2009
(in millions of RMB)				
Beginning of the year	4,828	5,893	6,773	7,921
Additional impaired loans ⁽¹⁾	2,092	2,780	5,029	2,520
Deducted by				
Write-offs	(435)	(792)	(1,198)	(603)
Upgrades	(59)	(33)	(144)	(63)
Recoveries	(533)	(1,075)	(2,539)	(1,762)
Others ⁽²⁾	—	—	—	(212)
End of the year	<u>5,893</u>	<u>6,773</u>	<u>7,921</u>	<u>7,801</u>

Notes:

- (1) Include downgrades from performing loans to impaired loans in respective year.
- (2) We also recorded only a one-off waiver of RMB212 million in the first half of 2009, representing the outstanding loan principal and the interest which we agreed to waive with respect to one of our corporate loan customers, a highway constructor, after such customer agreed to repay the remaining outstanding principal amount of RMB350 million. The waiver was approved by our Board and such customer repaid the remaining RMB350 million to us in March 2009.

As of June 30, 2009, the balance of our impaired loans was RMB7.8 billion, a decrease by 1.5% from RMB7.9 billion as of December 31, 2008, mainly due to our strengthened recovery of impaired loans during the period.

As of December 31, 2008, the balance of our impaired loans was RMB7.9 billion, an increase by 16.9% from RMB6.8 billion as of December 31, 2007, which in turn increased by 14.9% from RMB5.9 billion as of December 31, 2006. However, our impaired loan ratio continued to decrease from 1.25% as of December 31, 2006 to 1.22% as of December 31, 2007 to 1.20% as of December 2008. The increase in the balance of our impaired loans from December 31, 2006 to December 31, 2008 was primarily due to additional impaired loans recorded in 2007 and 2008, respectively, as a result of our business expansion. Our recoveries of impaired loans increased significantly in 2007 and 2008, reflecting our efforts to recollect problem loans.

Distribution of Impaired Loans by Product Type

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

	As of December 31,									As of June 30,		
	2006			2007			2008			2009		
	Amount	% of total	Impaired loans ratio ⁽¹⁾	Amount	% of total	Impaired loans ratio ⁽¹⁾	Amount	% of total	Impaired loans ratio ⁽¹⁾	Amount	% of total	Impaired loans ratio ⁽¹⁾
(in millions of RMB, except percentages)												
Corporate loans												
Short term loans	3,245	55.1%	1.54%	3,216	47.5%	1.35%	3,215	40.6%	1.18%	3,416	43.8%	1.01%
Medium- and long-term loans	2,086	35.4%	1.55%	2,988	44.1%	1.63%	3,971	50.1%	1.86%	3,433	44.0%	1.06%
subtotal	5,331	90.5%	1.54%	6,204	91.6%	1.47%	7,186	90.7%	1.48%	6,849	87.8%	1.03%
Discounted bills	—	—	—	—	—	—	69	0.9%	0.11%	—	—	—
Retail loans												
Residential mortgage loans	482	8.2%	0.74%	538	7.9%	0.60%	451	5.7%	0.52%	507	6.5%	0.55%
Credit card advances	7	0.1%	0.60%	25	0.4%	0.46%	156	2.0%	1.23%	418	5.4%	3.28%
Others	73	1.2%	3.52%	6	0.1%	0.13%	59	0.7%	0.70%	27	0.3%	0.14%
subtotal	562	9.5%	0.82%	569	8.4%	0.57%	666	8.4%	0.61%	952	12.2%	0.76%
Total impaired loans	<u>5,893</u>	<u>100%</u>	<u>1.25%</u>	<u>6,773</u>	<u>100%</u>	<u>1.22%</u>	<u>7,921</u>	<u>100%</u>	<u>1.20%</u>	<u>7,801</u>	<u>100%</u>	<u>0.86%</u>

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Note:

(1) Calculated by dividing impaired loans in each category by total loans in that category.

The impaired loan ratio of short term loans decreased to 1.01% as of June 30, 2009 from 1.18% as of December 31, 2008, 1.35% as of December 31, 2007 and 1.54% as of December 31, 2006, reflecting our continuous efforts to control our impaired loans.

The impaired loan ratio of medium- and long-term loans increased to 1.86% as of December 31, 2008 from 1.63% as of December 31, 2007, which in turn increased from 1.55% as of December 31, 2006. The increase of the impaired loan ratio of medium and long-term loans from 2006 to 2007 primarily reflected the impact of the PRC government's macroeconomic tightening policy, particularly on certain borrowers in the power and real estate industries. The increase of the impaired loan ratio of medium-and long-term loans from 2007 to 2008 was primarily due to the impact of the global economic downturn on certain industries of the PRC, such as the real estate and energy industries. This resulted in downgrades of loans to some of our customers in such industries. The impaired loan ratio of medium- and long-term loans decreased to 1.06% as of June 30, 2009 from 1.86% as of December 31, 2008, mainly because (i) the total amount of medium- and long-term loans increased in the first half of 2009, (ii) some of our customers had improved their financial condition and resumed repaying the loans, and (iii) our continuous effort to recover impaired loans.

The impaired loan ratio of residential mortgage loans decreased to 0.52% as of December 31, 2008 from 0.60% as of December 31, 2007 and 0.74% as of December 31, 2006. As of June 30, 2009, the impaired loan ratio of residential mortgage loans increased slightly to 0.55% from 0.52% as of December 31, 2008.

The impaired loan ratio of credit card advances increased to 3.28% as of June 30, 2009 from 1.23% as of December 31, 2008, 0.46% as of December 31, 2007 and 0.60% as of December 31, 2006. The increase in the impaired loan ratio of credit card advances is in line with the business expansion of our credit card business and within our risk tolerance level. As of June 30, 2009, the total amount of the impaired loans of credit card advances amounted to RMB418 million, representing an increase of 167.9% from RMB156 million as of December 31, 2008, mainly because some of our credit card customers were affected by the economic downturn and therefore unable to repay the outstanding credit card advances in time.

We had an impaired loan ratio of 3.52% for other retail loans as of December 31, 2006, representing mainly our impaired automobile loans. As a result of our efforts to recollect the impaired automobile loans and the write-off of certain amounts of impaired automobile loans, the impaired loan ratio for other loans decreased to 0.13%, 0.70% and 0.14% as of December 31, 2007 and 2008 and June 30, 2009, respectively.

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Distribution of Corporate Impaired Loans by Industry

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

	As of December 31,									As of June 30,		
	2006			2007			2008			2009		
	Amount	% of total	Impaired loan ratio ⁽¹⁾	Amount	% of total	Impaired loan ratio ⁽¹⁾	Amount	% of total	Impaired loan ratio ⁽¹⁾	Amount	% of total	Impaired loan ratio ⁽¹⁾
	(in millions of RMB, except percentages)											
Manufacturing	2,068	38.8%	2.75%	1,819	29.3%	1.89%	1,427	19.9%	1.52%	1,743	25.4%	1.47%
Real estate	622	11.7%	1.18%	1,664	26.8%	2.40%	2,230	31.0%	2.62%	2,020	29.5%	2.12%
Transportation, storage and post services	10	0.2%	0.03%	104	1.7%	0.22%	595	8.3%	0.91%	45	0.7%	0.06%
Leasing and commercial services ⁽²⁾	571	10.7%	3.09%	353	5.7%	1.40%	520	7.2%	1.09%	670	9.8%	0.85%
Water environment and public utility management	—	0.0%	0.00%	—	0.0%	0.00%	—	0.0%	0.00%	—	0.0%	0.00%
Production and supply of electric power, gas and water	89	1.7%	0.23%	88	1.4%	0.18%	1,047	14.6%	2.44%	974	14.2%	1.77%
Mining	18	0.3%	0.18%	18	0.3%	0.10%	11	0.2%	0.04%	11	0.2%	0.03%
Public management and social organizations	—	0.0%	0.00%	—	0.0%	0.00%	—	0.0%	0.00%	—	0.0%	0.00%
Construction	—	0.0%	0.00%	—	0.0%	0.00%	31	0.4%	0.13%	70	1.0%	0.24%
Wholesale and retail	846	15.9%	5.00%	1,126	18.2%	5.30%	402	5.6%	2.02%	372	5.4%	1.47%
Education and public services	576	10.8%	3.98%	563	9.1%	3.36%	229	3.2%	1.72%	15	0.2%	0.07%
Financing	8	0.1%	0.45%	83	1.3%	3.56%	—	0.0%	0.00%	—	0.0%	0.00%
Information transmission, IT services and software	233	4.4%	4.00%	201	3.2%	5.15%	413	5.7%	9.48%	412	6.0%	8.68%
Others ⁽³⁾	290	5.4%	4.06%	185	3.0%	2.10%	281	3.9%	2.84%	517	7.6%	4.96%
Total corporate impaired loans	<u>5,331</u>	<u>100%</u>	1.54%	<u>6,204</u>	<u>100%</u>	1.47%	<u>7,186</u>	<u>100%</u>	1.48%	<u>6,849</u>	<u>100%</u>	1.03%

Notes:

- (1) Impaired loan ratios for each industry are calculated by dividing the amount of total impaired loans for each industry by total outstanding loans for that industry.
- (2) Consist primarily of asset management, leasing, advertising and municipal infrastructure construction.
- (3) Consist primarily of scientific research, technical service, geological exploration, hotel and restaurants industries etc.

The impaired loan ratio of our loans to the manufacturing industry decreased from 2.75% as of December 31, 2006, 1.89% as of December 31, 2007, 1.52% as of December 31, 2008 to 1.47% as of June 30, 2009, primarily due to our increased efforts to recover these impaired loans.

As of June 30, 2009, impaired loans to the real estate industry accounted for 29.5% of our total impaired loans. The impaired loan ratio of our loans to the real estate industry increased to 2.62% as of December 31, 2008 from 2.40% as of December 31, 2007 and 1.18% as of December 31, 2006. The increase in the impaired loan ratio of our loans to the real estate industry from December 31, 2006 to December 31, 2008 primarily reflected the impact of the economic downturn on the real estate market and the impact of the PRC government's macroeconomic measures relating to the real estate industry, particularly on borrowers in the real estate industry which were highly leveraged and whose sources of funding were adversely affected by these measures. The impaired loan ratio of our loans to the real estate industry decreased to 2.12% as of June 30, 2009 from 2.62% as of December 31, 2008, primarily due to the recovery of China's real estate market since early 2009.

The impaired loan ratio of our loans to the production and supply of electric power, gas and water industry increased significantly to 2.44% in 2008. In particular, the increase of the impaired

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loan ratio of our loans to the production and supply of electric power, gas and water industry was largely due to the significant increase in the prices of coal in 2008. This caused one of our power company customers to suffer losses and as a result, it was unable to pay the interest in accordance with its loan contract with us. The impaired loan ratio of our loans to the production and supply of electric power, gas and water industry decreased to 1.77% as of June 30, 2009, primarily due to our continuous efforts to recover problem loans.

The impaired loan ratio of our loans to the leasing and commercial services industry decreased from 3.09% as of December 31, 2006, to 1.40% as of December 31, 2007, 1.09% as of December 31, 2008 and 0.85% as of June 30, 2009. The impaired loan ratio of our loans to the wholesale and retail industry decreased from 5.00% as of December 31, 2006 and 5.3% as of December 31, 2007 to 2.02% as of December 31, 2008 and 1.47% as of June 30, 2009. The impaired loan ratio of our loans to the education and public services industry decreased from 3.98% as of December 31, 2006, to 3.36% as of December 31, 2007, 1.72% as of December 31, 2008 and 0.07% as of June 30, 2009. The continuous decreases in the impaired loan ratio in these industries were mainly due to our increased efforts to recover impaired loans in these industries and the overall improvement in our loan quality.

The impaired loan ratio of our loans to the information transmission, IT services and software increased significantly from December 31, 2007 to June 30, 2009, primarily due to the slow-down of growth in these industries which has had a material adverse impact on certain borrowers in these businesses.

Distribution of Impaired Loans by Geographical Region

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

	As of December 31,									As of June 30,		
	2006			2007			2008			2009		
	Amount	% of total	Impaired loan ratio ⁽¹⁾	Amount	% of total	Impaired loan ratio ⁽¹⁾	Amount	% of total	Impaired loan ratio ⁽¹⁾	Amount	% of total	Impaired loan ratio ⁽¹⁾
	(in millions of RMB, except percentages)											
Northern China	4,759	80.8%	2.98%	4,172	61.6%	2.39%	4,316	54.5%	2.26%	4,297	55.1%	1.36%
Eastern China	393	6.7%	0.26%	655	9.7%	0.35%	1,434	18.1%	0.61%	1,982	25.4%	0.68%
Southern China	586	9.9%	0.72%	1,705	25.2%	1.85%	1,801	22.7%	1.89%	1,118	14.3%	1.19%
Others	155	2.6%	0.19%	241	3.5%	0.24%	370	4.7%	0.27%	404	5.2%	0.20%
Total impaired loans	<u>5,893</u>	<u>100%</u>	1.25%	<u>6,773</u>	<u>100%</u>	1.22%	<u>7,921</u>	<u>100%</u>	1.20%	<u>7,801</u>	<u>100%</u>	0.86%

Note:

(1) Impaired loan ratios for each geographic region are calculated by dividing total impaired loans for each geographical region by total outstanding loans for that geographical region.

As of June 30, 2009, our impaired loan ratio for the Northern China region was the highest among all of our geographical regions. The impaired loan ratio for Northern China was (and has been historically) relatively higher because (i) many branches located in such region have operated for many years, and (ii) impaired loans in such region include those of our headquarters, particularly those impaired loans transferred to and handled by the Investment Banking SBU of our headquarters for recovery. The impaired loan ratio for the Northern China region decreased from 2.26% as of December 31, 2008 to 1.36% as of June 30, 2009, mainly because our Investment Banking SBU successfully recovered certain problem loans in the first half of 2009.

The amount of impaired loans in and the impaired loan ratio for Eastern China and Southern China increased during the Track Record Period, mainly reflecting the increase of impaired loans in certain types of enterprises located in these regions, such as export-oriented enterprises, manufacturers and real estate developers, as a result of the China's economic conditions as well as the impact of the global economic slowdown. The decrease of the amount of impaired loans and

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the impaired loan ratio in Southern China in the first six months of 2009 mainly reflected our efforts to recover impaired loans during that period.

Distribution of Impaired Loans by Collateral

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

	As of December 31,						As of June 30,					
	2006			2007			2008			2009		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
(in millions of RMB, except percentages)												
Unsecured loans	481	8.1%	0.44%	496	7.3%	0.33%	818	10.3%	0.47%	880	11.3%	0.33%
Guaranteed loans	3,492	59.3%	2.65%	3,171	46.8%	2.23%	2,320	29.3%	1.54%	2,381	30.5%	1.22%
Secured loans												
- Collateralized loans ⁽¹⁾	1,533	26.0%	1.15%	2,788	41.2%	1.51%	4,066	51.3%	1.84%	4,230	54.2%	1.58%
- Pledged loans ⁽²⁾	387	6.6%	0.40%	318	4.7%	0.41%	717	9.1%	0.63%	310	4.0%	0.18%
Total impaired loans to customer	5,893	100%	1.25%	6,773	100%	1.22%	7,921	100%	1.20%	7,801	100%	0.86%

Notes:

- (1) Represent loans secured by tangible assets remaining in the borrower's possession, which consist primarily of loans secured by real estate, plant and equipment.
- (2) Consist primarily of loans secured by deposits, financial instruments (including discounted bills) and rights to future cash flows.

The impaired loan ratio for guaranteed loans decreased to 1.22% as of June 30, 2009 from 1.54% as of December 31, 2008, 2.23% as of December 31, 2007 and 2.65% as of December 31, 2006. The decrease was attributable primarily to our efforts to implement stricter credit assessment standards for granting guaranteed loans and improved collections with respect to problem loans by us.

The amount of impaired loans and the impaired loan ratio for collateralized loans increased from 2006 to 2008 as indicated in the above table. Such increase was along with our business expansion. Loans to borrowers in the real estate industry account for a substantial portion of our collateralized loans. The amount of impaired loans and the impaired loan ratio for collateralized loans increased in 2007 and 2008, primarily reflected the impact of economic downturn on the real estate market and the impact of the PRC government's macroeconomic measures relating to the real estate industry, particularly on borrowers in the real estate industry which were highly leveraged and whose sources of funding were adversely affected by these measures. The impaired loan ratio for collateralized loans decreased from 1.84% as of December 31, 2008 to 1.58% as of June 30, 2009, mainly due to our efforts to recover impaired loans during that period.

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Ten Largest Borrowers with Impaired Loans

The following table sets forth, as of June 30, 2009, our borrowers with the ten largest impaired loan balances outstanding.

<u>Industry</u>	<u>As of June 30, 2009</u>		
	<u>Amount</u>	<u>% of regulatory capital</u>	<u>% of total impaired loans</u>
(in millions of RMB, except percentages)			
Borrower A Production and supply of electric power, gas and water	879	1.1%	11.3%
Borrower B Real estate	576	0.7%	7.4%
Borrower C Manufacturing	274	0.3%	3.5%
Borrower D Real estate	232	0.3%	3.0%
Borrower E Leasing and commercial services	215	0.3%	2.8%
Borrower F Information transmission, IT services and software	200	0.2%	2.6%
Borrower G Others	199	0.2%	2.6%
Borrower H Leasing and commercial services	199	0.2%	2.6%
Borrower I Real estate	196	0.2%	2.5%
Borrower J Education and public services	189	0.2%	2.4%
Total	<u>3,159</u>	<u>3.9%</u>	<u>40.7%</u>

Loan Aging Schedule

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

	<u>As of December 31,</u>						<u>As of June 30,</u>	
	<u>2006</u>		<u>2007</u>		<u>2008</u>		<u>2009</u>	
	<u>Amount</u>	<u>% of total</u>	<u>Amount</u>	<u>% of total</u>	<u>Amount</u>	<u>% of total</u>	<u>Amount</u>	<u>% of total</u>
(in millions of RMB, except percentages)								
Current loans	460,998	97.7%	544,007	98.0%	643,663	97.8%	892,465	98.7%
Loans past due for ⁽¹⁾								
1 to 90 days	3,353	0.7%	3,981	0.7%	5,597	0.9%	3,787	0.4%
91 days to 180 days	963	0.2%	491	0.1%	2,911	0.4%	1,026	0.1%
181 days or more	6,774	1.4%	6,480	1.2%	6,189	0.9%	6,656	0.7%
Subtotal	11,090	2.3%	10,952	2.0%	14,697	2.2%	11,469	1.3%
Loans overdue 91 days or more	7,737	1.6%	6,971	1.3%	9,100	1.3%	7,682	0.8%
Total loans to customer	<u>472,088</u>	<u>100%</u>	<u>554,959</u>	<u>100%</u>	<u>658,360</u>	<u>100%</u>	<u>903,934</u>	<u>100%</u>

Note:

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

Allowance for Impairment Losses on Loans to Customers

We assess our loans for impairment, determine a level of allowance for impairment losses, and recognize any related provisions made in a year, using the concept of impairment under IAS 39. Our loans are reported net of the allowance for impairment losses on our consolidated balance sheet. Where there is objective evidence of impairment as a result of events occurring after the initial recognition of loans which affect the estimated future cash flows of the loans, we perform

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individual assessments to determine the allowance for impairment losses against individually significant loans (which consist of corporate loans and discounted bills).

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

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

The number of overdue days is only one of the indicators that we consider when deciding the allowance for impairment losses. An overdue loan does not necessarily imply a full amount of impairment loss. Therefore, we do not make full allowance for impairment loss for overdue loans. Note 2.7 to the Accountants’ Report included as Appendix I to this prospectus sets out detailed disclosures with respect to the criteria that we use to determine objective evidence of an impairment loss.

In April 2002, the PBOC issued the Guidelines Regarding Allowance of Impairment Loss by Banks (《銀行貸款損失準備計提指引》). The provisions under the guidelines are made with reference to the PBOC’s five-category loan classification system and therefore are different from the allowance for impairment losses we made pursuant to IAS39 and other related accounting rules. As of June 30, 2009, the difference between the allowance for impairment losses calculated according to the guidelines and the allowance for impairment losses calculated according to IAS39 and other related accounting rules was not material. As of the date of this prospectus, we comply with the requirement under the guidelines.

Individual and Collective Assessment on Loans

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 retail loans, on a collective basis.

The following table sets forth, as of the dates indicated, our impaired loans assessed on an individual basis, representing non-performing corporate loans and discounted bills, and our impaired loans assessed on a collective basis, representing impaired retail loans. For details on

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individual and collective assessment of our loans, see “Financial Information — Critical Accounting Estimates and Judgments.”

	As of December 31,						As of June 30,	
	2006		2007		2008		2009	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Individually assessed	5,114	86.8%	5,690	84.0%	6,720	84.8%	6,529	83.7%
Collectively assessed	779	13.2%	1,083	16.0%	1,201	15.2%	1,272	16.3%
Total impaired loans	5,893	100%	6,773	100%	7,921	100%	7,801	100%

Distribution of Allowance for Impairment Losses by Loan Classification

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

	As of December 31,									As of June 30,		
	2006			2007			2008			2009		
	Amount	% of total	Allowance to loans ⁽¹⁾	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	2,556	39.8%	0.5%	3,537	46.1%	0.6%	7,186	60.5%	1.1%	8,075	60.9%	0.9%
Substandard	712	11.1%	30.6%	522	6.8%	22.8%	1,162	9.8%	33.6%	874	6.6%	31.1%
Doubtful	1,788	27.9%	81.2%	1,859	24.3%	67.9%	2,264	19.0%	71.0%	1,783	13.5%	72.4%
Loss	1,361	21.2%	99.9%	1,745	22.8%	100%	1,273	10.7%	100%	2,524	19.0%	100%
Total allowance	6,417	100%	1.4%	7,663	100%	1.4%	11,885	100%	1.8%	13,256	100%	1.5%

Note:

(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.

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

	As of December 31,									As of June 30,		
	2006			2007			2008			2009		
	Amount	% of total	Allowance to loans ⁽¹⁾	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												
Performing	2,204	34.3%	0.6%	2,975	38.8%	0.7%	5,885	49.5%	1.2%	6,858	51.7%	1.0%
Substandard	633	9.9%	29.9%	421	5.5%	20.5%	1,038	8.7%	33.1%	723	5.5%	29.8%
Doubtful	1,500	23.4%	80.0%	1,575	20.6%	65.4%	1,926	16.2%	69.3%	1,340	10.1%	69.4%
Loss	1,339	20.9%	99.9%	1,741	22.7%	100%	1,267	10.7%	100%	2,494	18.8%	100%
Subtotal	5,676	88.5%	1.6%	6,712	87.6%	1.6%	10,116	85.1%	2.1%	11,415	86.1%	1.7%
Discounted bills												
Performing	25	0.4%	0.0%	32	0.4%	0.1%	445	3.7%	0.7%	328	2.5%	0.3%
Substandard	—	—	—	—	—	—	4	0.0%	26.7%	—	—	—
Doubtful	—	—	—	—	—	—	38	0.3%	70.4%	—	—	—
Loss	—	—	—	—	—	—	—	—	—	—	—	—
Subtotal	25	0.4%	0.0%	32	0.4%	0.1%	487	4.1%	0.8%	328	2.5%	0.3%
Retail loans												
Performing	327	5.1%	0.5%	530	6.9%	0.5%	856	7.2%	0.8%	889	6.7%	0.7%
Substandard	79	1.2%	37.1%	101	1.3%	42.6%	120	1.0%	39.2%	151	1.1%	38.8%
Doubtful	288	4.5%	88.1%	284	3.7%	86.6%	300	2.5%	84.7%	443	3.3%	83.1%
Loss	22	0.3%	100%	4	0.1%	100%	6	0.1%	100%	30	0.2%	100%
Subtotal	716	11.1%	1.0%	919	12.0%	0.9%	1,282	10.8%	1.2%	1,513	11.4%	1.2%
Total allowance	6,417	100%	1.4%	7,663	100%	1.4%	11,885	100%	1.8%	13,256	100%	1.5%

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Note:

- (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.

Changes to the Allowance for Impairment Losses

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

	Amount, (in millions of RMB)
As of January 1, 2006	4,839
New allowance, net ⁽¹⁾	2,158
Amount written off during the year as uncollectible	(437)
Transfers out ⁽²⁾	—
Recovery after write-off	—
Unwinding of discount on allowance ⁽³⁾	(138)
Exchange difference	(5)
As of December 31, 2006	6,417
New allowance, net ⁽¹⁾	2,236
Amount written off during the year as uncollectible	(792)
Transfers out ⁽²⁾	(35)
Recovery after write-off	10
Unwinding of discount on allowance ⁽³⁾	(160)
Exchange difference	(13)
As of December 31, 2007	7,663
As of December 31, 2007	7,663
New allowance, net ⁽¹⁾	5,686
Amount written off during the year as uncollectible	(1,340)
Transfers out ⁽²⁾	—
Recovery after write-off	56
Unwinding of discount on allowance ⁽³⁾	(164)
Exchange difference	(16)
As of December 31, 2008	11,885
New allowance, net ⁽¹⁾	2,405
Amount written off during the year as uncollectible	(911)
Transfers out ⁽²⁾	—
Recovery after write-off	28
Unwinding of discount on allowance ⁽³⁾	(151)
As of June 30, 2009	13,256

Notes:

- (1) Represents the amount of new allowance provided during the relevant period, after deducting the amount of releases from loan loss allowances during the same period.
- (2) Represent the amount of the related allowance transferred out along with the loans sold by our Bank to others.
- (3) Allowances are calculated based on discounted cash flow. As time goes by, the present value of future cash flow increases, and the allowances are released accordingly.

June 30, 2009 Compared to December 31, 2008. Our allowance for impairment losses as of June 30, 2009 was 13.3 billion, an increase of 11.5% from RMB11.9 billion as of December 31, 2008, primarily due to new allowance provided for the period.

The net new allowance provided for the first half of 2009 amounted to RMB2.4 billion, primarily due to the overall growth of our total loan portfolio.

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The amount of loans written off during the first half of 2009 amounted to RMB0.9 billion, primarily due to the increase of the loans that met our requirements for write-off.

2008 Compared to 2007. Our allowance for impairment losses as of December 31, 2008 was RMB11.9 billion, an increase of 55.1% from RMB7.7 billion as of December 31, 2007, primarily due to new allowance provided for the year, partially offset by a reduction of provisions resulting from a greater amount of loans written off in 2008 than 2007.

The net new allowance provided for the year increased by 154.3% to RMB5.7 billion in 2008 compared to RMB2.2 billion in 2007, primarily due to a combination of (i) the overall growth of our total loan portfolio, and (ii) the more conservative approach to provisions, reflecting our evaluation of the current macroeconomic environment.

The amount of loans written off during the year as uncollectible increased by 69.2% to RMB1.3 billion in 2008 from RMB0.8 billion in 2007, primarily due to the increase of the loans that met our requirements for write-off, including among other things, certain loans to companies located in Sichuan Province, which had suffered losses as a result of the earthquake in such province in 2008.

2007 Compared to 2006. Our allowance for impairment losses as of December 31, 2007 was RMB7.7 billion, an increase of 19.4% from RMB6.4 billion as of December 31, 2006, primarily due to new allowance provided for the year, partially offset by a reduction of the provisions resulting from a greater amount of loans written off in 2007 than 2006.

The net new allowance provided for the year increased by RMB78 million to RMB2.2 billion in 2007 compared to the new allowance provided for 2006, primarily due to the overall growth of our total loan portfolio.

The amount of written off of the allowance resulting from loan write-offs increased by 81.2% to RMB0.8 billion in loans 2007 from RMB0.4 billion in 2006, primarily due to the increase of the loans that met our requirements for write-off.

In 2007, recoveries of loans previously written off amounted to RMB10 million, which was primarily due to our increased focus on collection efforts.

Primarily as a result of the above factors, the coverage ratio of our total allowance for impairment losses to total non-performing loans increased to 169.9% as of June 30, 2009 from 150.0% as of December 31, 2008, 113.1% as of December 31, 2007 and 108.9% as of December 31, 2006.

DESCRIPTION OF OUR ASSETS AND LIABILITIES

Distribution of Allowance for Impairment Losses by Product Type

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

	As of December 31,									As of June 30,		
	2006			2007			2008			2009		
	Amount	% of total	Allowance to impaired loans ⁽¹⁾	Amount	% of total	Allowance to impaired loans ⁽¹⁾	Amount	% of total	Allowance to impaired loans ⁽¹⁾	Amount	% of total	Allowance to impaired loans ⁽¹⁾
	(in millions of RMB, except percentages)											
Corporate loans												
Short term loans	3,781	58.9%	116.5%	3,939	51.4%	122.5%	4,906	41.3%	152.6%	4,903	37.0%	143.5%
Medium- and long-term loans	1,895	29.5%	90.8%	2,773	36.2%	92.8%	5,210	43.8%	131.2%	6,512	49.1%	189.7%
Subtotal	5,676	88.5%	106.5%	6,712	87.6%	108.2%	10,116	85.1%	140.8%	11,415	86.1%	166.7%
Discounted bills	25	0.4%	N/A ⁽²⁾	32	0.4%	N/A ⁽²⁾	487	4.1%	705.8%	328	2.5%	N/A ⁽²⁾
Retail loans												
Residential mortgage loans	596	9.3%	123.7%	805	10.5%	149.6%	861	7.2%	190.9%	983	7.4%	193.9%
Credit card advances	30	0.5%	428.6%	105	1.4%	420.0%	309	2.6%	198.1%	479	3.6%	114.6%
Others	90	1.4%	123.3%	9	0.1%	150.0%	112	1.0%	189.8%	51	0.4%	188.9%
Subtotal	716	11.2%	127.4%	919	12.0%	161.5%	1,282	10.8%	192.5%	1,513	11.4%	158.9%
Total allowance	<u>6,417</u>	<u>100%</u>	<u>108.9%</u>	<u>7,663</u>	<u>100%</u>	<u>113.1%</u>	<u>11,885</u>	<u>100%</u>	<u>150.0%</u>	<u>13,256</u>	<u>100%</u>	<u>169.9%</u>

Notes:

- (1) Calculated by dividing the amount of the allowance for impairment losses on loans in each category by the amount of impaired loans in that category.
- (2) No impaired loan was recorded.

DESCRIPTION OF OUR ASSETS AND LIABILITIES

Distribution of Allowance for Impairment Losses for Corporate Loans by Industry

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

	As of December 31,						As of June 30,					
	2006			2007			2008			2009		
	Amount	% of total	Allowance to impaired loans ⁽¹⁾	Amount	% of total	Allowance to impaired loans ⁽¹⁾	Amount	% of total	Allowance to impaired loans ⁽¹⁾	Amount	% of total	Allowance to impaired loans ⁽¹⁾
(in millions of RMB, except percentages)												
Manufacturing	2,000	35.2%	96.7%	2,069	30.8%	113.7%	2,045	20.2%	143.3%	2,417	21.3%	138.7%
Real estate	589	10.4%	94.7%	975	14.5%	58.6%	2,013	19.9%	90.3%	2,218	19.4%	109.8%
Transportation, storage and post services	261	4.6%	2,610.0%	366	5.5%	351.9%	861	8.5%	144.7%	820	7.2%	1,822.2%
Leasing and commercial services	394	6.9%	69.0%	358	5.3%	101.4%	1,043	10.3%	200.6%	1,232	10.8%	183.9%
Water, environment and public utility management	208	3.7%	N/A ⁽²⁾	275	4.1%	N/A ⁽²⁾	481	4.8%	N/A ⁽²⁾	629	5.5%	N/A ⁽²⁾
Production and supply of electric power, gas and water	266	4.7%	298.9%	413	6.2%	469.3%	1,210	12.0%	115.6%	1,426	12.5%	146.4%
Mining	82	1.4%	455.6%	131	2.0%	727.8%	337	3.3%	3,063.6%	334	2.9%	3,036.4%
Public management and social organizations	60	1.1%	N/A ⁽²⁾	140	2.1%	N/A ⁽²⁾	167	1.7%	N/A ⁽²⁾	301	2.6%	N/A ⁽²⁾
Construction	139	2.4%	N/A ⁽²⁾	180	2.7%	N/A ⁽²⁾	308	3.0%	993.5%	297	2.6%	424.3%
Wholesale and retail	676	11.9%	79.9%	820	12.2%	72.8%	493	4.9%	122.6%	474	4.2%	127.4%
Education and public services	423	7.5%	73.4%	458	6.8%	81.3%	564	5.6%	246.3%	64	0.6%	426.7%
Financing	95	1.7%	1,187.5%	128	1.9%	154.2%	39	0.4%	N/A ⁽²⁾	43	0.4%	N/A ⁽²⁾
Information transmission, IT services and software	237	4.2%	101.7%	181	2.7%	90%	342	3.4%	82.8%	436	3.8%	105.8%
Others	246	4.3%	84.8%	218	3.2%	117.8%	213	2.1%	75.8%	724	6.3%	140.0%
Total	5,676	100%	106.5%	6,712	100%	108.2%	10,116	100%	140.8%	11,415	100%	166.7%

Notes:

- (1) Calculated by dividing the amount of the allowance for impairment losses on loans in each category by the amount of impaired loans in that category.
- (2) No non-performing loans recorded.

Distribution of Allowance for Impairment Losses by Geographical Region

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

	As of December 31,						As of June 30,					
	2006			2007			2008			2009		
	Amount	% of total	Allowance to impaired loans ⁽¹⁾	Amount	% of total	Allowance to impaired loans ⁽¹⁾	Amount	% of total	Allowance to impaired loans ⁽¹⁾	Amount	% of total	Allowance to impaired loans ⁽¹⁾
(in millions of RMB, except percentages)												
Northern China	4,070	63.4%	85.5%	3,980	51.9%	95.4%	5,051	42.5%	117.0%	5,743	43.3%	133.7%
Eastern China	1,101	17.1%	280.2%	1,614	21.1%	246.4%	3,251	27.4%	226.7%	3,893	29.4%	196.4%
Southern China	678	10.6%	115.7%	1,226	16.0%	71.9%	1,796	15.1%	99.7%	1,469	11.1%	131.4%
Others	568	8.9%	366.5%	843	11.0%	349.8%	1,787	15.0%	483.0%	2,151	16.2%	532.4%
Total	6,417	100%	108.9%	7,663	100%	113.1%	11,885	100%	150.0%	13,256	100%	169.9%

Note:

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

DESCRIPTION OF OUR ASSETS AND LIABILITIES

Investment Securities and Trading Assets

Our investment securities and trading assets consist of listed and unlisted Renminbi- and foreign-denominated securities. Investment securities and trading assets represented 11.2%, 12.7%, 17.0% and 13.9% of our total assets as of June 30, 2009 and December 31, 2008, 2007 and 2006, respectively. We classify our investment securities and trading assets into (i) financial assets at fair value through profit or loss, (ii) available-for-sale financial assets, (iii) held-to-maturity financial assets and (iv) loans and receivables, primarily based on our intentions with respect to these assets and pursuant to the requirements of IAS 39. The following table sets forth, at the dates indicated, the components of our investment securities and trading assets.

	As of December 31,						As of June 30,	
	2006		2007		2008		2009	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)								
Trading assets	—	—	2,572	1.6%	4,405	3.3%	7,261	4.6%
Available-for-sale securities ⁽¹⁾	50,162	49.8%	60,715	38.8%	53,597	40.1%	65,042	41.3%
Held-to-maturity securities	40,302	40.0%	45,816	29.3%	38,716	28.9%	46,494	29.6%
Loans and receivables	10,228	10.2%	47,449	30.3%	37,066	27.7%	38,516	24.5%
Total	100,692	100%	156,552	100%	133,784	100%	157,313	100%

Note:

(1) Our allowance to the subprime mortgage securities as of December 31, 2006, 2007, 2008 and June 30, 2009 were nil, nil, RMB50 million and RMB63 million, respectively, relating to our subprime mortgage securities gross balance of RMB78 million, RMB73 million, RMB68 million and RMB68 million, respectively.

The majority of our investment securities and trading assets are debt securities. The following table sets forth, at the dates indicated, the components of our investment in debt securities.

Debt Securities

	As of December 31,						As of June 30,	
	2006		2007		2008		2009	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)								
Government and quasi- government bonds	83,918	84.3%	100,187	68.6%	99,839	76.8%	111,687	71.1%
Financial institution bonds	11,162	11.2%	35,705	24.5%	20,809	16.0%	21,758	13.9%
Corporate bonds	4,417	4.5%	10,104	6.9%	9,375	7.2%	23,644	15.0%
Total debt securities	99,497	100%	145,996	100%	130,023	100%	157,089	100%

The portion of government and quasi-government bonds decreased from 84.3% as of December 31, 2006 to 68.6% as of December 31, 2007, while the portion of financial institution bonds increased from 11.2% as of December 31, 2006 to 24.5% as of December 31, 2007. The increase of the percentage of financial institution bonds in 2007 was due to our increased holdings in certain short-term bonds issued by other financial institutions to achieve a better investment return. Most of such bonds were of a maturity of one year or less. The portion of government and quasi-government bonds increased from 68.6% as of December 31, 2007 to 76.8% as of December 31, 2008 and in turn to 71.1% as of June 30, 2009, while the portion of financial institution bonds decreased from 24.5% as of December 31, 2007 to 16.0% as of December 31, 2008 and in turn to 13.9% as of June 30, 2009. In the first half of 2009, we increased our investment in certain corporate bonds with high investment yields to increase our investment return. As a result,

DESCRIPTION OF OUR ASSETS AND LIABILITIES
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the portion of corporate bonds increased to 15.0% as of June 30, 2009 from 7.2% as of December 31, 2008.

Maturity Profile of Investment Portfolio

The following table sets forth, as of June 30, 2009, our investment securities and trading assets by remaining maturity.

	As of June 30, 2009					Total
	Due less than 3 months	Due over 3 months to 1 year	Due between 1 and 5 years	Due more than 5 years	Overdue	
	(in millions of RMB)					
Trading assets ⁽¹⁾	1,514	1,523	3,435	789	—	7,261
Available-for-sale securities ⁽¹⁾	3,747	8,702	35,615	16,978	—	65,042
Held-to-maturity securities	2,540	6,466	29,790	7,698	—	46,494
Loans and receivables	3,781	4,341	23,184	7,210	—	38,516
Total	11,582	21,032	92,024	32,675	—	157,313

Note:

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

Carrying Value and Market Value

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

	As of December 31,						As of June 30,	
	2006		2007		2008		2009	
	Carrying value	Market/ fair value	Carrying value	Market/ fair value	Carrying value	Market/ fair value	Carrying value	Market/ fair value
	(in millions of RMB)							
Held-to-maturity financial assets	40,302	40,168	45,816	44,203	38,716	40,033	46,494	47,094

Note:

- (1) Since there is no established market for the loans and receivables in our investment portfolio and we expect to realize the full face value of these loans and receivables upon the maturity, we do not assess market value or fair value of these loans and receivables.

DESCRIPTION OF OUR ASSETS AND LIABILITIES

Investment Concentration

The following table sets forth, as of June 30, 2009, our ten largest holdings of investment securities.

	Issuer	As of June 30, 2009			
		Carrying value	% of total debt investment portfolio	% of total shareholders' equity ⁽¹⁾	Market/Fair value
(in millions of RMB, except percentages)					
Investment A.	PBOC	9,500	6.0%	16.4%	9,713
Investment B.	PBOC	5,000	3.2%	8.6%	5,131
Investment C.	PBOC	4,520	2.9%	7.8%	4,658
Investment D.	MOF	3,787	2.4%	6.5%	3,825
Investment E.	PBOC	3,500	2.2%	6.0%	3,587
Investment F.	MOF	2,967	1.9%	5.1%	3,039
Investment G.	CDB ⁽²⁾	2,780	1.8%	4.8%	2,809
Investment H.	CDB ⁽²⁾	2,776	1.8%	4.8%	2,903
Investment I.	MOF	1,849	1.2%	3.2%	1,881
Investment J.	MOF	1,635	1.0%	2.8%	1,646
Total.		<u>38,314</u>	<u>24.4%</u>	<u>66.0%</u>	<u>39,192</u>

Notes:

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

(2) China Development Bank

Other Components of Our Assets

Other components of our assets consist primarily of (i) balances with central bank, (ii) placements with banks and other financial institutions, and (iii) cash and due from banks and other financial institutions.

Balances with central bank consist primarily of statutory deposit reserves and surplus deposit reserves. Statutory deposit reserves represent the minimum level of cash deposits that we are required to maintain at the PBOC. The minimum level is determined as a percentage of our deposits from customers. Surplus deposit reserves are deposits with the PBOC in excess of statutory deposit reserves. As of June 30, 2009, our balances with the PBOC amounted to RMB134.6 billion, a decrease of 26.0% from RMB181.9 billion as of December 31, 2008, primarily because we increased the placements with other banks to increase return. As of December 31, 2008, our balances with the PBOC amounted to RMB181.9 billion, an increase of 70.0% from RMB107.0 billion as of December 31, 2007, primarily reflecting the sufficiency of our liquidity at the end of 2008. As of December 31, 2007, our balances with the PBOC amounted to RMB107.0 billion, a slight increase of 1.7% from RMB105.2 billion as of December 31, 2006, which was in line with the increase in our deposits from customers. For the discussion of the change in the average balances of balance with central bank and its impact on our interest income, see "Financial Information — Results of Operations — Year Ended December 31, 2008, 2007 and 2006 — Net Interest Income".

Placements with banks and other financial institutions consist primarily of inter-bank placements and balances under resale agreements. Our placements with banks and other financial institutions, net of the allowance for impairment losses, increased significantly by 233.1% to RMB174.6 billion as of June 30, 2009 from RMB52.4 billion as of December 31, 2008. The increase reflected the sufficiency of our liquidity as of June 30, 2009, primarily attributable to the significant increases in deposits from customers in the first half of 2009. Placements with banks and other financial institutions, net of the allowance for impairment losses, decreased by 34.7% to RMB52.4 billion as of December 31, 2008 from RMB80.2 billion as of December 31, 2007, mainly

DESCRIPTION OF OUR ASSETS AND LIABILITIES
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because we allocated our funds to other categories of assets at the end of 2008. Placements with banks and other financial institutions, net of the allowance for impairment losses, increased by 149.6% from RMB32.1 billion as of December 31, 2006 to RMB80.2 billion as of December 31, 2007, primarily because of the expansion of our inter-bank business in 2007. For a discussion of the change in the average balances of amounts placements with banks and other financial institutions and its impact on our interest income, see “Financial Information — Results of Operations — Years Ended December 31, 2008, 2007 and 2006 — Net Interest Income.”

Cash and due from banks and other financial institutions increased to RMB24.1 billion as of June 30, 2009 from RMB17.6 billion as of December 31, 2008, RMB12.0 billion as of December 31, 2007 and 11.6 billion as of December 31, 2006. The increase was in line with our business expansion and reflected the sufficiency of our liquidity as of December 31, 2008 and June 30, 2009. For a discussion of the change in the average balances of amounts due from banks and other financial institutions and its impact on our interest income, see “Financial Information — Results of Operations — Years Ended December 31, 2008, 2007 and 2006 — Net Interest Income.”

LIABILITIES AND SOURCES OF FUNDS

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

	As of December 31,						As of June 30,	
	2006		2007		2008		2009	
	<u>Amount</u>	<u>% of total</u>	<u>Amount</u>	<u>% of total</u>	<u>Amount</u>	<u>% of total</u>	<u>Amount</u>	<u>% of total</u>
	(in millions of RMB, except percentages)							
Deposits from customers	583,315	82.7%	671,219	77.3%	785,786	78.6%	1,075,309	79.5%
Due to and placements from banks and other financial institutions	91,821	13.0%	150,253	17.3%	160,248	16.0%	221,090	16.4%
Financial bonds	10,163	1.4%	22,378	2.6%	22,459	2.3%	11,995	0.9%
Subordinated bonds	7,238	1.0%	7,253	0.8%	7,252	0.7%	7,432	0.5%
Hybrid capital bonds	4,289	0.6%	4,289	0.5%	4,288	0.4%	9,450	0.7%
Others	8,950	1.3%	13,258	1.5%	19,645	2.0%	26,686	2.0%
Total liabilities	<u>705,776</u>	<u>100%</u>	<u>868,650</u>	<u>100%</u>	<u>999,678</u>	<u>100%</u>	<u>1,351,962</u>	<u>100%</u>

Our total liabilities increased by 35.2% to RMB1,352.0 billion as of June 30, 2009 from RMB999.7 billion as of December 31, 2008, which in turn increased from RMB868.7 billion as of December 31, 2007 and RMB705.8 billion as of December 31, 2006, respectively. The significant increase in our total liabilities in the first half of 2009 was mainly attributable to the increase in the amount of deposits from customers. Deposits from customers have historically been our primary source of funding and represented 79.5%, 78.6%, 77.3% and 82.7% of our total liabilities as of June 30, 2009 and December 31, 2008, 2007 and 2006, respectively.

DESCRIPTION OF OUR ASSETS AND LIABILITIES
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Deposits from Customers

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

	As of December 31,						As of June 30,	
	2006		2007		2008		2009	
	<u>Amount</u>	<u>% of total</u>	<u>Amount</u>	<u>% of total</u>	<u>Amount</u>	<u>% of total</u>	<u>Amount</u>	<u>% of total</u>
	(in millions of RMB, except percentages)							
Corporate deposits								
Demand	214,964	36.9%	265,047	39.5%	297,243	37.8%	387,581	36.0%
Time	273,681	46.9%	298,638	44.5%	352,275	44.8%	509,128	47.4%
Subtotal	488,645	83.8%	563,685	84.0%	649,518	82.6%	896,709	83.4%
Retail deposits								
Demand	30,605	5.2%	30,185	4.5%	33,599	4.3%	40,520	3.8%
Time	64,065	11.0%	77,349	11.5%	102,669	13.1%	138,080	12.8%
Subtotal	94,670	16.2%	107,534	16.0%	136,268	17.4%	178,600	16.6%
Total deposits from customers . .	<u>583,315</u>	<u>100%</u>	<u>671,219</u>	<u>100%</u>	<u>785,786</u>	<u>100%</u>	<u>1,075,309</u>	<u>100%</u>

Total deposits from our customers increased by 36.8% to RMB1,075.3 billion as of June 30, 2009 from RMB785.8 billion as of December 31, 2008, which in turn increased from RMB671.2 billion as of December 31, 2007 and RMB583.3 billion as of December 31, 2006, respectively.

Distribution of Deposits by Geographical Region

We classify deposits geographically based on the location of the branches or the SBUs taking the deposit. There is generally a high correlation between the location of the depositor and the location of the branch taking the deposit, except in the case of our headquarters, which takes negotiated deposits from customers throughout China. The following table sets forth, as of the dates indicated, the distribution of our deposits from customers by geographical region.

	As of December 31,						As of June 30,	
	2006		2007		2008		2009	
	<u>Amount</u>	<u>% of total</u>	<u>Amount</u>	<u>% of total</u>	<u>Amount</u>	<u>% of total</u>	<u>Amount</u>	<u>% of total</u>
	(in millions of RMB, except percentages)							
Northern China	205,929	35.3%	244,588	36.4%	277,593	35.3%	375,068	34.9%
Eastern China	175,075	30.0%	190,615	28.4%	257,151	32.7%	337,930	31.4%
Southern China	106,773	18.3%	102,402	15.3%	122,304	15.6%	168,177	15.6%
Others	95,538	16.4%	133,614	19.9%	128,738	16.4%	194,134	18.1%
Total deposits from customers . .	<u>583,315</u>	<u>100%</u>	<u>671,219</u>	<u>100%</u>	<u>785,786</u>	<u>100%</u>	<u>1,075,309</u>	<u>100%</u>

DESCRIPTION OF OUR ASSETS AND LIABILITIES
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Distribution of Deposits by Remaining Maturity

The following table sets forth, as of June 30, 2009, the distribution of our deposits from customers by remaining maturity.

As of June 30, 2009													
Repayable on demand		Due less than 1 month		Due over 1 month up to 3 months		Due over 3 months up to 12 months		Due over 1 year up to 5 years		Due more than 5 years		Total	
Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total		
(in millions of RMB, except percentages)													
Corporate deposits	461,407	85.6%	57,532	86.8%	149,700	86.2%	153,977	73.5%	73,713	85.3%	380	100%	896,709
Retail deposits	77,813	14.4%	8,781	13.2%	23,910	13.8%	55,400	26.5%	12,696	14.7%	—	0%	178,600
Total deposits from customers	<u>539,220</u>	<u>100%</u>	<u>66,313</u>	<u>100%</u>	<u>173,610</u>	<u>100%</u>	<u>209,377</u>	<u>100%</u>	<u>86,409</u>	<u>100%</u>	<u>380</u>	<u>100%</u>	<u>1,075,309</u>

Distribution of Deposits by Currency

The following table sets forth the distribution of our deposits from customers by currency as of June 30, 2009.

	As of June 30, 2009			
	RMB	USD	Others	Total
	(in millions of RMB)			
Corporate deposits	882,207	12,895	1,607	896,709
Retail deposits	174,747	2,427	1,426	178,600
Total deposits from customers	<u>1,056,954</u>	<u>15,322</u>	<u>3,033</u>	<u>1,075,309</u>

Other Components of Our Liabilities

Other components of our liabilities consist primarily of (i) amounts due to and placements from banks and other financial institutions, and (ii) issued debt securities. Amounts due to and placements from banks and other financial institutions increased significantly by 38.0% to RMB221.1 billion as of June 30, 2009 from RMB160.2 billion as of December 31, 2008. Amounts due to and placements from banks and other financial institutions increased by 6.7% to RMB160.2 billion as of December 31, 2008 from RMB150.3 billion as of December 31, 2007, which in turn increased by 63.6% from RMB91.8 billion as of December 31, 2006. The increase in amounts due to and placements from banks and other financial institutions reflected our continuous efforts to expand our inter-bank borrowing business.

For a description of our issued debt securities, see "Corporate History and Organizational Structure."

DESCRIPTION OF OUR ASSETS AND LIABILITIES
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SELECTED, UNAUDITED ASSETS AND LIABILITIES INFORMATION AS OF SEPTEMBER 30, 2009

Under the rules of the Shanghai Stock Exchange on which our A Shares are listed, we are required to publish reports containing unaudited financial statements as of and for the nine months ended September 30 of each year. Because we publish certain financial statements as of and for the three months and nine months ended September 30, 2009 in the PRC prior to the date of this prospectus, we have included our unaudited condensed financial statements as of and for the nine months ended September 30, 2009 in this prospectus. The unaudited condensed financial statements, comprising a statement of comprehensive income for the three months and nine months ended September 30, 2009 and a balance sheet as of September 30, 2009, together with selected explanatory notes, are included in Appendix II to this prospectus. They have been prepared in accordance with IAS 34 and reviewed by PricewaterhouseCoopers in accordance with ISRE 2410.

Assets

As of September 30, 2009, our total assets amounted to RMB1,402.9 billion, a 33.1% increase compared to RMB1,054.4 billion as of December 31, 2008, mainly reflecting the growth in loans to customers. In the third quarter of 2009, we shifted our focus from loan growth to optimization of our loan portfolio. Accordingly, our total assets decreased slightly by RMB7.1 billion from RMB1,410.0 billion as of June 30, 2009 to RMB1,402.9 billion as of September 30, 2009. The following table sets forth, at the dates indicated, the components of our total assets.

	<u>As of December 31,</u>		<u>As of September 30</u>	
	<u>2008</u>		<u>2009</u>	
	<u>Amount</u>	<u>% of total</u>	<u>Amount</u>	<u>% of total</u>
	(in millions of RMB, except percentages)			
	(unaudited)			
Loans to customers, gross	658,360	62.4%	893,543	63.7%
Allowance for impairment losses	(11,885)	(1.1)%	(13,535)	(1.0)%
Loans to customers, net	646,475	61.3%	880,008	62.7%
Investment securities and trading assets	133,784	12.7%	154,057	11.0%
Balances with central banks	181,878	17.2%	164,538	11.7%
Placements with banks and other financial institutions, net ⁽¹⁾	52,408	5.0%	114,381	8.2%
Cash and due from banks and other financial institutions ⁽²⁾	17,648	1.7%	53,517	3.8%
Other assets ⁽³⁾	22,157	2.1%	36,435	2.6%
Total assets	<u>1,054,350</u>	<u>100.0%</u>	<u>1,402,936</u>	<u>100.0%</u>

Notes:

- (1) Placements with banks and other financial institutions are net of the related allowance for impairment losses of RMB92 million and RMB34 million as of December 31, 2008 and as of September 30, 2009, respectively.
- (2) We did not record any related allowance for impairment losses for cash and due from banks and other financial institutions as of December 31, 2008 and September 30, 2009, respectively.
- (3) Other assets consist primarily of property, plant and equipment, finance lease receivables, deferred income tax assets, etc.

Loans to Customers

Our total loans to customers increased by 35.7% to RMB893.5 billion as of September 30, 2009 from RMB658.4 billion as of December 31, 2008. The following discussion is based on our total loans to customers, before taking into account the related allowance for impairment losses.

DESCRIPTION OF OUR ASSETS AND LIABILITIES
--

Distribution of Loans by Product Type

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

	<u>As of December 31,</u>		<u>As of September 30</u>	
	<u>2008</u>		<u>2009</u>	
	<u>Amount</u>	<u>% of total</u>	<u>Amount</u>	<u>% of total</u>
	(in millions of RMB, except percentages)			
	(unaudited)			
Corporate loans	485,858	73.8%	686,016	76.8%
Discounted bills	63,931	9.7%	61,333	6.9%
Retail loans	108,571	16.5%	146,194	16.4%
Total loans to customers	<u>658,360</u>	<u>100.0%</u>	<u>893,543</u>	<u>100.0%</u>

Our corporate loans increased by 41.2% to RMB686.0 billion as of September 30, 2009 from RMB485.9 billion as of December 31, 2008. The market demand for corporate loans increased significantly in the first three quarters of 2009 due to the PRC government's fiscal stimulus measures to boost economic growth.

After a significant increase in the first half of 2009 from RMB63.9 billion as of December 31, 2008 to RMB115.9 billion as of June 30, 2009, discounted bills decreased to RMB61.3 billion as of September 30, 2009. The decrease was mainly due to the fact that significant amount of discounted bills issued during the first and the second quarters of 2009 became due in the third quarter. In addition, the demand for short term financing through discounted bills decreased in the third quarter of 2009 as the demand for corporate loans increased. As a result of the decrease in discounted bills, our total loans to customers decreased slightly by 1.1% from RMB903.9 billion as of June 30, 2009 to RMB893.5 billion as of September 30, 2009.

Retail loans increased by 34.7% to RMB146.2 billion as of September 30, 2009 from RMB108.6 billion as of December 31, 2008, primarily due to our continued focus on expanding our retail loan business, in particular, the increase in our "Shang Dai Tong" (商貸通) loans. As of September 30, 2009, we had an outstanding balance of RMB32.1 billion of "Shang Dai Tong" (商貸通) loans.

DESCRIPTION OF OUR ASSETS AND LIABILITIES
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Borrower Concentration

The following table sets forth, as of September 30, 2009, the loans to our ten largest single borrowers, all of which were performing at that date.

As of September 30, 2009				
	Industry	Amount	% of total loans	% of regulatory capital ⁽¹⁾
(in millions of RMB, except percentages)				
Borrower A	Water, environment and public utility management	7,570	0.8%	8.9%
Borrower B	Water, environment and public utility management	7,000	0.8%	8.2%
Borrower C	Leasing and commercial services	5,041	0.6%	5.9%
Borrower D	Leasing and commercial services	3,200	0.4%	3.8%
Borrower E	Public management and social organizations	3,100	0.3%	3.6%
Borrower F	Leasing and commercial services	3,000	0.3%	3.5%
Borrower G	Leasing and commercial services	3,000	0.3%	3.5%
Borrower H	Real estate	2,900	0.3%	3.4%
Borrower I	Public management and social organizations	2,500	0.3%	2.9%
Borrower J	Transportation, storage and post service	<u>2,500</u>	<u>0.3%</u>	<u>2.9%</u>
Total		<u>39,811</u>	<u>4.4%</u>	<u>46.8%</u>

Note:

(1) Represents loan amounts as a percentage of our regulatory capital. See "Supervision and Regulation — PRC Banking Supervision and Regulation — Supervision Over Capital Adequacy."

The following table sets forth, as of September 30, 2009, the loans to our ten largest group borrowers (excluding single borrowers), all of which were performing at that date.

As of September 30, 2009				
	Industry	Amount	% of total loans	% of regulatory capital ⁽¹⁾
(in millions of RMB, except percentages)				
Borrower A	Production and supply of electric power, gas and water	5,491	0.6%	6.5%
Borrower B	Production and supply of electric power, gas and water	3,760	0.4%	4.4%
Borrower C	Production and supply of electric power, gas and water	3,270	0.4%	3.8%
Borrower D	Leasing and commercial services	3,200	0.4%	3.8%
Borrower E	Manufacturing	3,140	0.4%	3.7%
Borrower F	Transportation, storage and post service	3,101	0.4%	3.6%
Borrower G	Transportation, storage and post service	2,771	0.3%	3.3%
Borrower H	Manufacturing	2,680	0.3%	3.1%
Borrower I	Production and supply of electric power, gas and water	2,365	0.3%	2.8%
Borrower J	Manufacturing	<u>2,360</u>	<u>0.3%</u>	<u>2.8%</u>
Total		<u>32,138</u>	<u>3.8%</u>	<u>37.8%</u>

DESCRIPTION OF OUR ASSETS AND LIABILITIES
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Note:

- (1) Represents loan amounts as a percentage of our regulatory capital. See "Supervision and Regulation — PRC Banking Supervision and Regulation — Supervision Over Capital Adequacy."

Asset Quality of Our Loan Portfolio

Distribution of Loans by Loan Classification

The following tables set forth, at the dates indicated, the distribution of our loan portfolio by loan classification category. We use the term "non-performing loans" and "impaired loans" synonymously to refer to the loans identified as "impaired loans" in Note 3.(2).f.(iii) to the Accountant's Report in Appendix I to this prospectus. See "Definitions." Under our five-category loan classification system, our non-performing loans are classified as substandard, doubtful or loss, as applicable.

	<u>As of December 31,</u>		<u>As of September 30,</u>	
	<u>2008</u>		<u>2009</u>	
	<u>Amount</u>	<u>% of total</u>	<u>Amount</u>	<u>% of total</u>
(in millions of RMB, except percentages)				
Normal	634,073	96.3%	873,179	97.7%
Special mention	16,366	2.5%	13,079	1.5%
Substandard	3,459	0.5%	2,854	0.3%
Doubtful	3,189	0.5%	2,347	0.3%
Loss	<u>1,273</u>	<u>0.2%</u>	<u>2,084</u>	<u>0.2%</u>
Total loans to customers	<u>658,360</u>	<u>100.0%</u>	<u>893,543</u>	<u>100.0%</u>
Non-performing loan ratio⁽¹⁾		1.20%		0.82%

Note:

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

DESCRIPTION OF OUR ASSETS AND LIABILITIES
--

	As of December 31,		As of September 30,	
	2008		2009	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
Corporate loans				
Normal	465,678	95.8%	670,091	97.7%
Special mention	12,994	2.7%	9,561	1.4%
Substandard	3,138	0.6%	2,505	0.4%
Doubtful	2,781	0.6%	1,836	0.3%
Loss	1,267	0.3%	2,023	0.3%
Subtotal	485,858	100.0%	686,016	100.0%
Non-performing loan ratio⁽¹⁾		1.48%		0.93%
Discounted bills				
Normal	63,862	99.9%	61,333	100.0%
Special mention	—	0.0%	—	0.0%
Substandard	15	0.0%	—	0.0%
Doubtful	54	0.1%	—	0.0%
Loss	—	0.0%	—	0.0%
Subtotal	63,931	100.0%	61,333	100.0%
Non-performing loan ratio⁽¹⁾		0.11%		—
Retail loans				
Normal	104,533	96.3%	141,755	97.1%
Special mention	3,372	3.1%	3,518	2.4%
Substandard	306	0.3%	349	0.2%
Doubtful	354	0.3%	511	0.3%
Loss	6	0.0%	61	0.0%
Subtotal	108,571	100.0%	146,194	100.0%
Non-performing loan ratio⁽¹⁾		0.61%		0.63%
Total loans to customers	658,360		893,543	

Note:

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

The non-performing loan ratio of our total loan portfolio decreased from 1.20% as of December 31, 2008 to 0.86% as of June 30, 2009 and further decreased to 0.82% as of September 30, 2009. For the reasons of the decrease in the non-performing loan ratio in the first half of 2009, see “— Assets — Asset Quality of Our Loan Portfolio”. The continued decrease of the non-performing loan ratio of our total loan portfolio in the third quarter of 2009 was mainly due to the decrease of the non-performing loan ratio of our corporate loan portfolio, namely from 1.48% as of December 31, 2008 to 0.93% as of September 30, 2009. Such a decrease was mainly a result of our continuous efforts to recover problem corporate loans and to control the origination of new non-performing loans.

DESCRIPTION OF OUR ASSETS AND LIABILITIES
--

Changes to the Asset Quality of Our Loan Portfolio

The following table sets forth, for the nine months ended September 30, 2009, the changes in the outstanding balance of our non-performing loans.

	Amount (in millions of RMB, except percentages)	Non-performing loan ratio
As of December 31, 2008	7,921	1.20%
Additional impaired loans ⁽¹⁾	3,232	
Deducted by		
Write-offs	(715)	
Upgrades	(57)	
Recoveries	(2,840)	
Others	<u>(256)</u>	
As of September 30, 2009	<u><u>7,284</u></u>	0.82%

Note:

(1) Include downgrades from performing loans to impaired loans in respective period.

As of September 30, 2009, the balance of our impaired loans was RMB7.3 billion, a 8.0% decrease from RMB7.9 billion as of December 31, 2008, mainly due to recoveries amounting to RMB2.8 billion for impaired loans during the first three quarters of 2009.

Ten Largest Non-performing Borrowers

The following table sets forth, as of September 30, 2009, our borrowers with the ten largest non-performing loan balances outstanding.

		As of September 30, 2009			
	Industry	Amount	Classification	% of total non-performing loans	% of regulatory capital
		(in millions of RMB, except percentages)			
Borrower A	Real estate	576	Substandard	8%	0.7%
Borrower B	Production and supply of electric power, gas and water	459	Loss	6%	0.5%
Borrower C	Manufacturing	283	Substandard	4%	0.3%
Borrower D	Real estate	232	Substandard	3%	0.3%
Borrower E	Leasing and commercial services	215	Substandard	3%	0.2%
Borrower F	Information transmission, IT services and software	200	Loss	3%	0.2%
Borrower G	Others	199	Doubtful	3%	0.2%
Borrower H	Leasing and commercial services	199	Loss	3%	0.2%
Borrower I	Real estate	196	Doubtful	3%	0.2%
Borrower J	Education and public service	<u>189</u>	Loss	<u>3%</u>	<u>0.2%</u>
Total		<u><u>2,748</u></u>		<u><u>39%</u></u>	<u><u>3.0%</u></u>

DESCRIPTION OF OUR ASSETS AND LIABILITIES
--

Allowance for Impairment Losses on Loans to Customers

Distribution of Allowance for Impairment Losses by Loan Classification

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

	As of December 31,			As of September 30,		
	2008			2009		
	Amount	% of total	Allowance to loans ⁽¹⁾	Amount	% of total	Allowance to loans ⁽¹⁾
	(unaudited)					
	(in millions of RMB, except percentages)					
Performing ⁽²⁾	7,186	60.5%	1.1%	8,393	62.0%	0.95%
Substandard	1,162	9.8%	33.6%	1,176	8.7%	41.2%
Doubtful	2,264	19.0%	71.0%	1,882	13.9%	80.2%
Loss	<u>1,273</u>	<u>10.7%</u>	100.0%	<u>2,084</u>	<u>15.4%</u>	100.0%
Total allowance	<u>11,885</u>	<u>100%</u>	1.8%	<u>13,535</u>	<u>100%</u>	1.5%

Notes:

- (1) Calculated by dividing the amount of the allowance for impairment losses on loans in each category by the total amount of loans in that category.
- (2) Performing loans consist of loans classified as normal and special mention.

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

	As of December 31,			As of September 30,		
	2008			2009		
	Amount	% of total	Allowance to loans ⁽¹⁾	Amount	% of total	Allowance to loans ⁽¹⁾
	(unaudited)					
	(in millions of RMB, except percentages)					
Corporate loans						
Performing	5,885	49.5%	1.2%	7,221	53.4%	1.1%
Substandard	1,038	8.7%	33.1%	1,044	7.7%	41.7%
Doubtful	1,925	16.2%	69.2%	1,458	10.8%	79.4%
Loss	<u>1,268</u>	<u>10.7%</u>	100.0%	<u>2,023</u>	<u>14.9%</u>	100.0%
Subtotal	<u>10,116</u>	<u>85.1%</u>	2.1%	<u>11,746</u>	<u>86.8%</u>	1.7%
Discounted bills						
Performing	445	3.74%	0.7%	170	1.3%	0.3%
Substandard	4	0.03%	26.7%	—	—	—
Doubtful	38	0.32%	70.4%	—	—	—
Loss	—	—	—	—	—	—
Subtotal	<u>487</u>	<u>4.1%</u>	0.8%	<u>170</u>	<u>1.3%</u>	0.3%
Retail loans						
Performing	856	7.20%	0.8%	1,002	7.4%	0.7%
Substandard	120	1.01%	39.2%	132	1.0%	37.8%
Doubtful	300	2.52%	84.7%	424	3.1%	83.0%
Loss	<u>6</u>	<u>0.05%</u>	100.0%	<u>61</u>	<u>0.5%</u>	100.0%
Subtotal	<u>1,282</u>	<u>10.8%</u>	1.2%	<u>1,619</u>	<u>12.0%</u>	1.1%
Total allowance	<u>11,885</u>	<u>100.0%</u>	1.8%	<u>13,535</u>	<u>100.0%</u>	1.5%

Note:

- (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.

DESCRIPTION OF OUR ASSETS AND LIABILITIES
--

Changes to the Allowance for Impairment Losses

The following table sets forth, at and for the nine months ended September 30, 2009, the changes to the allowance for impairment losses on loans to customers.

	For the nine months ended September 30, 2009 <u>(in millions of RMB)</u> (unaudited)
As of December 31, 2008	11,885
Net allowance, net ⁽¹⁾	2,893
Amount written off during the year as uncollectible	(1,150)
Recovery after write-off	58
Unwinding of discount on allowance ⁽²⁾	<u>(151)</u>
As of September 30, 2009	<u><u>13,535</u></u>

Notes:

- (1) Represents the amount of new allowance provided during the relevant period, after deducting the amount of releases from loan loss allowances during the same period.
- (2) Allowances are calculated based on discounted cash flow. As time goes by, the present value of future cash flow increases, and the allowances are released accordingly.

Our allowance for impairment losses as of September 30, 2009 was RMB13.5 billion, an increase of 13.9% from RMB11.9 billion as of December 31, 2008. The net new allowance provided for the nine months ended September 30, 2009 amounted to RMB2.9 billion, primarily due to the overall growth of our total loan portfolio. The amount of loans written off during the first three quarters of 2009 amounted to RMB1.2 billion, primarily due to the increase of the loans that met our requirements for write-off. The coverage ratio of our total allowance for impairment losses to total non-performing loans was 185.8% as of September 30, 2009.

Investment Securities and Trading Assets

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

	As of December 31, 2008		As of September 30, 2009	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
Trading assets	4,405	3.3%	5,534	3.6%
Available-for-sale securities ⁽¹⁾	53,597	40.1%	52,265	33.9%
Held-to-maturity securities	38,716	28.9%	53,671	34.8%
Loans and receivables	<u>37,066</u>	<u>27.7%</u>	<u>42,587</u>	<u>27.7%</u>
Total	<u><u>133,784</u></u>	<u><u>100.0%</u></u>	<u><u>154,057</u></u>	<u><u>100.0%</u></u>

Note:

- (1) Includes an allowance of RMB50 million as of December 31, 2008 and RMB62 million as of September 30, 2009 relating to our subprime mortgage securities gross balance of RMB68 million as of the same dates.

Our total investment securities and trading assets increased by 15.2% to RMB154.1 billion as of September 30, 2009 from RMB133.8 billion as of December 31, 2008.

DESCRIPTION OF OUR ASSETS AND LIABILITIES
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Debt Securities

	As of December 31,						As of June 30,		As of September 30,	
	2006		2007		2008		2009		2009	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)										
Government and quasi-government bonds	83,918	84.3%	100,187	68.6%	99,839	76.8%	111,687	71.1%	116,172	75.5%
Financial institution bonds	11,162	11.2%	35,705	24.5%	20,809	16.0%	21,758	13.9%	19,452	12.6%
Corporate bonds	4,417	4.4%	10,104	6.9%	9,375	7.2%	23,644	15.0%	18,245	11.9%
Total debt securities	99,497	100.0%	145,996	100.0%	130,023	100.0%	157,089	100.0%	153,869	100.0%

In the third quarter of 2009, we continued to increase our holdings in government and quasi-government bonds. As of September 30, 2009, our holdings in government and quasi-government bonds amounted to RMB116.2 billion, a 16.4% increase from RMB99.8 billion as of December 31, 2008 and a 4.0% increase from RMB111.7 billion as of June 30, 2009. In the third quarter of 2009, our investment in corporate bonds decreased to RMB18.2 billion as of September 30, 2009 from RMB23.6 billion as of June 30, 2009, reflecting our continuous efforts to increase holdings of government bonds with higher credit grades.

Liabilities and Sources of Funds

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

	As of December 31,		As of September 30,	
	2008		2009	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Deposits from customers	785,786	78.6%	1,099,483	81.9%
Due to and placements from banks and other financial institutions	160,248	16.0%	182,729	13.6%
Financial bonds	22,459	2.2%	12,077	0.9%
Subordinated bonds	7,252	0.7%	7,522	0.6%
Hybrid capital bonds	4,288	0.4%	9,572	0.7%
Others	19,645	2.0%	31,142	2.3%
Total liabilities	999,678	100.0%	1,342,525	100.0%

Our total liabilities increased by 34.3% to RMB1,342.5 billion as of September 30, 2009 from RMB999.7 billion as of December 31, 2008, primarily due to an increase in deposits from customers.

DESCRIPTION OF OUR ASSETS AND LIABILITIES
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Deposits from Customers

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

	As of December 31, 2008		As of September 30, 2009	
	Amount	% of total	Amount	% of total
	(unaudited)			
	(in millions of RMB, except percentages)			
Corporate deposits				
Demand	297,243	37.8%	442,231	40.2%
Time	352,275	44.8%	464,618	42.3%
Subtotal	649,518	82.6%	906,849	82.5%
Retail				
Demand	33,599	4.3%	44,089	4.0%
Time	102,669	13.1%	148,545	13.5%
Subtotal	<u>136,268</u>	<u>17.4%</u>	<u>192,634</u>	<u>17.5%</u>
Total deposits from customers	<u>785,786</u>	<u>100.0%</u>	<u>1,099,483</u>	<u>100.0%</u>

Our total deposits increased by 39.9% to RMB1,099.5 billion as of September 30, 2009 from RMB785.8 billion as of December 31, 2008. Corporate deposits increased by 39.6% to RMB906.8 billion as of September 30, 2009 from RMB649.5 billion as of December 31, 2008, and retail deposits increased by 41.4% to RMB192.6 billion as of September 30, 2009 from RMB136.2 billion as of December 31, 2008.