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, and the Unaudited Supplementary Financial Information in Appendix III, in each case together with the accompanying notes. The Group's consolidated financial statements and notes thereto as of and for the years ended December 31, 2006, 2007 and 2008, and as of and for the six months ended June 30, 2009 have been audited and prepared in accordance with IFRS and are included in Appendix I herein. The Unaudited Interim Financial Report has also been prepared in accordance with IFRS. Capital adequacy ratios discussed in this section are calculated in accordance with applicable CBRC guidelines.

OVERVIEW

We are the first and largest national joint stock commercial bank in the PRC primarily founded by non-state-owned enterprises. Since our establishment in 1996, we have grown significantly and, as of September 30, 2009, we ranked fourth among the Other Joint Stock Commercial Banks in terms of total assets, according to PBOC statistics. As of September 30, 2009, we had total assets of RMB1,402.9 billion, total customer loans of 893.5 billion and total customer deposits of RMB1,099.5 billion. We have expanded our business at a rapid pace. From December 31, 2006 to December 31, 2008, our total assets, total loans to customers and total customer deposits grew at a CAGR of 20.6%, 18.1%, and 16.1%, respectively. From 2006 to 2008, our net profit grew at a CAGR of 44.9% from RMB3.8 billion to RMB7.9 billion compared to the CAGR of the PRC nominal GDP of 19.1%, according to the National Bureau of Statistics of China, during the same period. We had a net profit of RMB10.2 billion for the nine months ended September 30, 2009. Although our business has grown rapidly during this period, we have maintained our discipline in risk management, and thereby also maintained strong asset quality. As of September 30, 2009, our non-performing loan ratio[(1)] was 0.82%, compared with the industry's average of 1.66%. For a description of our non-performing loans, see "Description of Our Assets and Liabilities — Asset Quality of Our Loan Portfolio."

GENERAL FACTORS AFFECTING OUR RESULTS OF OPERATIONS

China's Economic Condition

Our results of operations and financial condition are significantly affected by China's economic conditions and the economic measures undertaken by the PRC government. China has experienced rapid economic growth over the past three decades largely as a result of the PRC government's extensive economic reforms, which have been focused on transforming China's centrally planned economy to a more market-based economy. The real growth of China's overall economy, ranging from 9.1% to 13.0% annually between 2002 and 2007, and 9.0% in 2008, according to the National Bureau of Statistics of China, has led to increased corporate activities as well as significant increases in personal wealth. These increases in personal wealth have led to a rapid growth in the retail banking business, including residential mortgage lending, of Chinese commercial banks. Nonetheless, recent adverse economic conditions have lowered China's growth. According to the National Bureau of Statistics of China, China's real GDP grew at a 7.7% annual rate over the first nine months of 2009, and according to the World Bank, China's real GDP is expected to grow at a rate of 8.4% in 2009 and 8.7% in 2010.

In 2007, China's stock markets had risen sharply due to, among others, capital market reforms that increased investor confidence and public enthusiasm for investments. Throughout most of

Note:

(1) Our non-performing loan ratio is identical to our impaired loan ratio as such term is read in this prospectus.

2007, monetary policy in China tightened due to its relatively high growth rate and concerns of the economy overheating. By late 2007, tightening measures, including stricter limitations on bank lending, including lending for investment projects, had begun to adversely impact banking activity in general. Due in part to these tightened macroeconomic policies, the overall growth rate for lending activity declined in 2008 in comparison with 2007.

The global economic downturn adversely impacted China's growth in 2008, and the PRC government has taken several steps to support economic growth. During the last quarter of 2008, the PBOC has loosened monetary policies that increased liquidity and lowered the required reserve ratio, thereby increasing lending. The PRC government implemented a four-trillion Renminbi fiscal stimulus package that is centered on infrastructure type projects. Large liquidity injections in the last quarter of 2008 led to a marked surge in bank lending in the first nine months of 2009. Spurred by the PRC government's encouragement of domestic banks to aid economic recovery, new RMB loans made in China in the first nine months of 2009 soared to RMB8,701.3 billion, which is about 2.5 times of the total value of new loans made in the first nine months of 2008.

Interest Rate Environment

Our results of operations depend to a great extent on our net interest income. Interest rates applicable to us are sensitive to many factors over which we have no control, including the regulatory framework of the banking and financial sectors in the PRC, domestic and international economic and political conditions, and competition. In 2008, our net interest income represented 86.9% of our total operating income, while for the nine months ended September 30, 2009, it represented 72.4% of our total operating income. Historically, interest rates on deposits and loans were set by, and subject to restrictions established by, the PBOC. In recent years, as part of the overall reform of the banking system, the PBOC has implemented a series of initiatives designed to gradually liberalize interest rates and move towards a more market-based interest rate regime. Currently, RMB-denominated loans are subject to minimum rates based on the PBOC benchmark rates, but generally are not subject to any maximum rates. RMB-denominated deposits are subject to maximum rates set by the PBOC, but generally are not subject to any minimum rates. Adjustments to benchmark rates have significantly affected the average rates for loans and deposits, which in turn have had impacted the net interest income of Chinese commercial banks.

While the PBOC made no adjustments to benchmark interest rates in 2005, the PBOC in mid-2006 undertook a rate hike for the first time in eighteen months in an effort to prevent overheating in the Chinese economy, increasing the one-year benchmark RMB lending rate by 27 basis points. In order to further prevent overheating of the economy, the PBOC again increased rates by six instances in 2007, increasing the one-year benchmark RMB lending rate by a total of 135 basis points and the deposit rate by a total of 162 basis points over the course of the year. At the end of 2007, the one-year benchmark lending and deposit rates were 7.47% and 4.14%, respectively. Since then, the PBOC maintained interest rates unchanged until September 2008, when it took action to reduce interest rates in the wake of the global financial crisis. The PBOC cut rates by five instances during the last quarter of 2008 reducing the one-year benchmark RMB lending rate by a total of 216 basis points and the deposit rate by a total of 189 basis points. By the end of 2008, the one-year RMB benchmark lending and deposit rates were 5.31% and 2.25%, respectively. All benchmark lending and deposit rates have remained unchanged since December 23, 2008.

Regulatory Environment

Our business and results of operations could be materially affected by changes in the policies, laws and regulations relating the PRC banking industry, including the extent of which we can engage in certain businesses, activities or charge fees. We are mainly regulated by the PBOC and CBRC. However, commercial banks in the PRC are also subject to the supervision and regulation by other regulatory authorities including the SAFE, the CSRC and the CIRC. The PBOC is responsible for formulating and implementing monetary policies and the CBRC is responsible for supervising and regulating banking institutions. In addition to benchmark interest rates, the PBOC sets required reserve requirements, extends loans to commercial banks, accepts discounted bills, and conducts open market transactions, all of which affect liquidity and market interest rates. The PBOC also provides guidelines for the banking industry's impairment coverage ratio that affect the amount of provisions we make on financial assets. Furthermore, the PBOC also sets the required reserve ratio and the deposit reserve rate as a way of regulating liquidity. It raised the required reserve ratio by ten instances in 2007 and by four instances in 2008 prior to the global financial crisis and cut the required reserve ratio by four instances in 2008 since the global financial crisis, thereby affecting lending. The required reserve ratio has remained unchanged since the end of 2008. Moreover, the CBRC promulgates regulations and guidelines aimed at improving the operations and risk management of the PRC commercial banks. The CBRC has promulgated guidelines to enhance risk management, supervision over capital adequacy and internal control in addition to requiring more disclosure, improved corporate governance and more prudent securitization of assets. For example, the CBRC may implement further changes to capital adequacy guidelines affecting the amount banks are able to lend. In addition, our results of operations are subject to changes to tax laws and regulations as such changes affect our provisions made to deferred tax assets and liabilities, and our income tax expense.

The Competitive Landscape in the PRC Banking Industry

The PRC banking industry is becoming increasingly competitive. We face competition from other PRC commercial banks, including the Large Commercial Banks, Other Joint Stock Commercial Banks and other commercial banks, and foreign invested financial institutions. In addition, there is increasing competition from non-banking financial institutions, such as insurance companies, as they continue to provide other value-added services and products to their clients, such as wealth management. Many other PRC commercial banks compete with us in substantially the same markets for loan, deposit and fee customers. In recent years, all Large Commercial Banks have undergone restructuring and become joint stock companies while six of the ten largest Chinese banks have completed their listing on the Hong Kong Stock Exchange. In addition, the Other Joint Stock Commercial Banks have been increasing their market share in recent years. These banks generally focus on providing more innovative products and higher-quality services, and are more adaptive to changing market conditions. Furthermore, smaller sized banks have increased their profiles, with several restructuring, achieving public listing and undertaking cross-regional operations. These and other changes in China's domestic banking sector have intensified competition among PRC domestic commercial banks. China's leadership has also prioritised improving rural finance. Competition is likely to increase in this sector particularly since the Postal Savings Bank of China in 2007 has emerged as a strong player in rural banking and Agricultural Bank of China was converted into a joint stock limited liability company in early 2009.

As a result of China's accession to the WTO, China has gradually lifted the restrictions on locally incorporated foreign banks' activities, including geographical restrictions and limitations on business, particularly on conducting RMB-denominated business. For example, restrictions on locally incorporated foreign banks' geographical presence, customer base and operational licenses were removed in 2006. Locally incorporated foreign banks are generally subject to the same treatment and regulatory standards as local banking institutions. Consequently, the activities of locally incorporated foreign banks in the PRC have further expanded since that time. Furthermore, CEPA has eased certain restrictions on the activities of Hong Kong banks in China, permitting them to conduct Renminbi banking activities sooner than other foreign banks. Greater participation by foreign banks will increase competition in the PRC banking market. See "Banking Industry in the PRC" and "Business — Competition."

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, our condensed results of operations.

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
				(unaudited)	
	(in millions of RMB)				
Interest income	27,361	40,070	56,311	27,259	24,634
Interest expense	(11,193)	(17,490)	(25,931)	(12,563)	(10,684)
Net interest income	**16,168**	**22,580**	**30,380**	**14,696**	**13,950**
Fee and commission income	1,224	2,665	4,755	3,211	2,442
Fee and commission expense	(197)	(274)	(294)	(139)	(144)
Net fee and commission income	**1,027**	**2,391**	**4,461**	**3,072**	**2,298**
Net trading income/(loss)	202	425	185	(155)	23
Net gain/(loss) on disposal of available-for-sale securities	44	(124)	(53)	27	4,959
Impairment losses on assets	(2,214)	(2,265)	(6,518)	(1,615)	(2,851)
Operating expenses	(9,717)	(13,752)	(17,817)	(7,868)	(8,378)
Other operating expenses	(273)	(43)	(150)	(1)	(415)
Profit before income tax	**5,237**	**9,212**	**10,488**	**8,156**	**9,586**
Income tax expense	(1,479)	(2,877)	(2,595)	(2,110)	(2,207)
Net profit	**3,758**	**6,335**	**7,893**	**6,046**	**7,379**
Earnings per Share (expressed in RMB per Share)					
— basic	0.23	0.36	0.42	0.32	0.39
— diluted	0.23	0.36	0.42	0.32	0.39
Dividends[1]	—	3,620	1,506	—	—

Note:

(1) Represents the final dividend proposed after the respective balance sheet date.

Our net profit increased by 22.0% to RMB7.4 billion for the six months ended June 30, 2009 compared to RMB6.0 billion for the six months ended June 30, 2008, primarily due to an increase to net gain on disposal of available-for-sale securities, partially offset by (i) a decrease in net interest income, (ii) a decrease in net fee and commission income, (iii) increased operating expenses, and (iv) greater impairment losses on assets. Excluding the net gain on disposal of available-for-sale securities of RMB4,959 million and RMB27 million for the six months ended June 30, 2009 and 2008, respectively, our total operating income and profit before income tax decreased by 7.6% and 43.1%, respectively, for the six months ended June 30, 2009 as compared to the same period in 2008.

Our net profit increased by 24.6% to RMB7.9 billion in 2008 compared to RMB6.3 billion in 2007, which increased by 68.6% compared to RMB3.8 billion in 2006.

Our net profit increased from 2006 through 2008 as a combined result of:

- an increase in our net interest income at a CAGR of 37.1%, primarily as a result of an increase in our interest-earning assets coupled with an increase in average yield;
- an increase in our net fee and commission income at a CAGR of 108.4% mainly due to greater consulting and financial advisory service fees, credit commitment commissions, settlement services fees, and trust and other fiduciary service fees;

- an increase in our operating expenses at a CAGR of 35.4%, a slower rate of growth than our net interest income and net fee and commission income; and
- an increase in our impairment charge for assets at a CAGR of 71.6%, mainly from a significant increase in provisions during 2008.

Six Months Ended June 30, 2009 Compared to Six Months Ended June 30, 2008

Net Interest Income

Net interest income has historically been the largest component of our total operating income, representing 65.7% and 83.3% of our total operating income for the six months ended June 30, 2009 and 2008, respectively.

The following table sets forth, for the periods indicated, our interest income, interest expense and net interest income.

	For the six months ended June 30,	
	2008	2009
	(unaudited)	
	(In millions of RMB)	
Interest income	27,259	24,634
Interest expense	(12,563)	(10,684)
Net interest income	14,696	13,950

Our net interest income decreased by 5.1% to RMB14.0 billion for the six months ended June 30, 2009 compared to RMB14.7 billion for the six months ended June 30, 2008.

The table below sets forth, for the periods indicated the average balances of our assets and liabilities and the related interest income or expense and average yields (for assets) and costs (for liabilities).

	For the six months ended June 30,					
	2008			2009		
	Average balance(1)	Interest income	Average yield(2)	Average balance(1)	Interest income	Average yield(2)
		(unaudited)				
	(In millions of RMB, except percentages)					
Assets						
Loans and advances to customers, gross	565,560	21,244	7.51%	714,223	19,574	5.48%
Investment securities and trading assets	148,740	2,919	3.92%	142,637	2,657	3.73%
Due from and placements with banks and other financial institutions(3)	91,747	2,008	4.38%	158,764	1,211	1.53%
Balances with central banks(4)	104,944	1,044	1.99%	123,955	866	1.40%
Others(5)	1,312	44	6.71%	8,840	326	7.38%
Total interest-earning assets	**912,303**	**27,259**	**5.98%**	**1,148,419**	**24,634**	**4.29%**
Allowance for impairment losses(6)	(8,144)			(12,750)		
Non-interest-earning assets(6)(7)	19,103			20,762		
Total assets	**923,262**			**1,156,431**		

	For the six months ended June 30,					
	2008			2009		
	Average balance[(1)]	Interest expense	Average cost[(2)]	Average balance[(1)]	Interest expense	Average cost[(2)]
		(unaudited)				
	(In millions of RMB, except percentages)					
Liabilities						
Deposits from customers	675,226	8,925	2.64%	900,280	8,238	1.83%
Due to and placements from banks and other financial institutions[(8)]	194,665	2,960	3.04%	139,773	1,595	2.28%
Debt securities in issue[(9)]	33,487	678	4.05%	33,947	761	4.48%
Others[(10)]	—	—	—	5,408	90	3.33%
Total interest-bearing liabilities	**903,378**	**12,563**	**2.78%**	**1,079,408**	**10,684**	**1.98%**
Non-interest-bearing liabilities[(6)(11)]	13,692			17,276		
Total liabilities	**917,070**			**1,096,684**		
Net interest income		**14,696**			**13,950**	
Net interest spread[(12)]			**3.20%**			**2.31%**
Net interest margin[(13)]			**3.22%**			**2.43%**

Notes:

(1) Calculated as the average of the daily balances of the Bank and the average monthly balances of our subsidiaries.

(2) Calculated on an annualized basis.

(3) Consist primarily of deposits with banks and other financial institutions, placements with banks and other financial institution and assets purchased under resale agreements.

(4) Consist primarily of statutory deposit reserves and surplus deposit reserves.

(5) Consist primarily of finance lease receivables related to Minsheng Financial Leasing Co. Ltd.

(6) Calculated as the average of the beginning and ending balances for the period.

(7) Consist primarily of cash, derivative financial assets, property, plant and equipment, deferred income tax assets and other assets.

(8) Consist primarily of deposits from banks and other financial institutions, placements from banks and other financial institutions and assets sold under repurchase agreements.

(9) Consist of financial bonds, subordinated bonds and hybrid capital bonds.

(10) Consists primarily of borrowings from other financial institutions related to Minsheng Financial Leasing Co. Ltd.

(11) Consist of derivative financial liabilities, deferred income tax liabilities and other liabilities.

(12) Calculated as the difference between the average yield on total interest-earning assets and the average cost on total interest-bearing liabilities.

(13) Calculated by dividing net interest income by the average balance of total interest-earning assets.

The following table sets forth, for the periods indicated, the allocation of changes in our interest income and interest expense due to changes in volume and rate. Changes in volume are measured by changes in the average balances, and changes in rate are measured by changes in the average rates. Changes caused by both volume and rate have been allocated to changes in rate.

	For the six months ended June 30, 2009 vs. 2008		
	Increase/(decrease) due to		Net increase/ (decrease)(3)
	Volume(1)	Rate(2)	
	(In millions of RMB)		
Assets			
Loans to customers, gross	5,584	(7,254)	(1,670)
Investment securities and trading assets	(120)	(142)	(262)
Due from and placements with banks and other financial institutions	1,467	(2,264)	(797)
Balances with central banks	189	(367)	(178)
Others	252	30	282
Changes in interest income	**7,372**	**(9,997)**	**(2,625)**
Liabilities			
Deposits from customers	2,975	(3,662)	(687)
Due to and placements from banks and other financial institutions	(835)	(530)	(1,365)
Debt securities in issue	9	74	83
Others	90	—	90
Changes in interest expense	**2,239**	**(4,118)**	**(1,879)**
Changes in net interest income	**5,133**	**(5,879)**	**(746)**

Notes:

(1) Represents the average balance for the period minus the average balance for the previous period, multiplied by the average yield/cost for the previous period divided by two.

(2) Represents the average yield/cost for the period minus the average yield/cost for the previous year divided by two, multiplied by the average balance for the period.

(3) Represents interest income/expense for the period minus interest income/expense for the previous period.

Interest Income

Our interest income decreased by 9.6% to RMB24.6 billion for the six months ended June 30, 2009 compared to RMB27.3 billion for the six months ended June 30, 2008, due to a decrease in the average yield of interest-earning assets partially offset by an increase in the average balance. The average yield on interest-earning assets was 4.29% and 5.98% for the six months ended June 30, 2009 and 2008, respectively.

Interest Income from Loans to Customers

Interest income from loans to customers has been historically the largest component of our interest income, representing 79.5% and 77.9% of our total interest income for the six months ended June 30, 2009 and 2008, respectively.

The following table sets forth, for the period indicated, the average balance, interest income and average yield for each component of our loans to customers.

	For the six months ended June 30,					
	2008			2009		
	Average balance(1)	Interest income	Average yield(2)	Average balance(1)	Interest income	Average yield(2)
		(unaudited)				
	(In millions of RMB, except percentages)					
Corporate loans	441,405	16,349	7.41%	536,178	15,153	5.65%
Discounted bills	23,025	1,378	11.97%	66,141	1,458	4.41%
Retail loans	101,130	3,517	6.96%	111,904	2,963	5.30%
Total loans to customers	**565,560**	**21,244**	**7.51%**	**714,223**	**19,574**	**5.48%**

Notes:

(1) Calculated as the average of the daily balances of the Bank and the average monthly balances of our subsidiaries.

(2) Calculated on an annualized basis.

Interest income from loans to customers decreased approximately by 7.9% to RMB19.6 billion for the six months ended June 30, 2009 compared to RMB21.2 billion over the same period in 2008, primarily due to a decrease in the average yield of interest-earning assets partially offset by an increase in the average balance. The average yield decreased to 5.48% in the six months ended June 30, 2009 compared to 7.51% over the same period in 2008.

The largest component of our interest income from loans has been interest income from corporate loans, representing 77.4% and 77.0% of our total interest income from loans to customers for the six months ended June 30, 2009 and 2008, respectively.

Interest income from corporate loans decreased by 7.3% to RMB15.2 billion for the six months ended June 30, 2009 compared to RMB16.3 billion over the same period in 2008, primarily due to a decrease in average yield to 5.65% for the six months ended June 30, 2009 from 7.41% over the same period in 2008 offset by an increase in the average balance of 21.5% to RMB536.2 billion in the six months ended June 30, 2009 from RMB441.4 billion over the same period in 2008. The increase in average corporate loans balance was mainly due to increased liquidity and monetary easing by the PBOC, increased demand for corporate loans related to an anticipated economic recovery in the PRC as well as our business expansion over the period. The decrease in the average yield on corporate loans was primarily due to lower PBOC benchmark interest rates during the first half of 2009 as the PBOC decreased interest rates in late 2008.

Interest income from discounted bills increased by 5.8% to RMB1.5 billion for the six months ended June 30, 2009 compared to RMB1.4 billion over the same period in 2008, primarily due to a increase in the average balance partially offset by a decrease in the average yield. The average balance increased by 187.3% to RMB66.1 billion for the six months ended June 30, 2009 as compared to RMB23.0 billion over the same period in 2008, primarily due to increased demand for discounted bills due to a lower market interest rate environment. The average yield of discounted bills decreased to 4.41% for the six months ended June 30, 2009 compared to 11.97% over the same period in 2008, primarily reflecting a lower interest rate environment as a result of a decrease in the PBOC benchmark interest rates in late 2008.

Interest income from retail loans decreased by 15.8% to RMB3.0 billion for the six months ended June 30, 2009 compared to RMB3.5 billion over the same period in 2008, primarily due to a decrease in the average yield partially offset by an increase in the average balance. The average balance of retail loans increased by 10.7% to RMB111.9 billion in the six months ended June 30, 2009 compared to RMB101.1 billion over the same period in 2008, primarily due to our continued business expansion. The average yield decreased to 5.30% in the six months ended June 30, 2009 from

6.96% over the same period in 2008, primarily due to (i) lower interest rate environment and (ii) a repricing of retail mortgages on January 1, 2009 to reflect the lower interest rate environment.

Interest Income from Investment Securities

Interest income from investment securities has been the second largest component of our interest income, representing 10.8% and 10.7% of our total interest income for the six months ended June 30, 2009 and 2008, respectively.

Interest income from investments securities decreased by 9.0% to RMB2.7 billion for the six months ended June 30, 2009 compared to RMB2.9 billion over the same period in 2008, primarily due to a decrease in the average yield, coupled with a decrease in the average balance. The average yield decreased to 3.73% for the six months ended June 30, 2009 from 3.92% over the same period in 2008, primarily reflecting a lower interest rate environment during the first half of 2009 as compared to the same period in 2008. The average balance decreased by 4.1% to RMB142.6 billion for the six months ended June 30, 2009 compared to RMB148.7 billion over the same period in 2008, primarily due to our more conservative approach in investing and a less favorable interest rate environment.

Interest Income from Due from and Placements with Banks and Other Financial Institutions

Interest income from Due from and placements with banks and other financial institutions decreased by 39.7% to RMB1.2 billion for the six months ended June 30, 2009 compared to RMB2.0 billion over the same period in 2008, primarily due to a significant decrease in the average yield, partially offset by an increase in the average balance. The average yield decreased to 1.53% for the six months ended June 30, 2009 from 4.38% over the same period in 2008, primarily reflecting a lower interest rate environment as a result of a decrease in PBOC benchmark interest rates in late 2008. The average balance increased by 73.0% to RMB158.8 billion for the six months ended June 30, 2009 compared to RMB91.7 billion over the same period in 2008, primarily due to increased funding from customer deposits.

Interest Income from Balances with Central Banks

Interest income from balances with central banks decreased by 17.0% to RMB866 million for the six months ended June 30, 2009 compared to RMB1,044 million over the same period in 2008, primarily due to a decrease in the average yield, partially offset by an increase in the average balance. The average yield decreased to 1.40% for the six months ended June 30, 2009 from 1.99% over the same period in 2008, primarily reflecting a lower interest rate environment as a result of a decrease in deposit reserve rates in late 2008. The average balance increased by 18.1% to RMB124.0 billion for the six months ended June 30, 2009 compared to RMB104.9 billion over the same period in 2008, primarily due to increases in our statutory deposit reserves, reflecting an increase in deposits from customers.

Interest Expense

Interest expense decreased by 15.0% to RMB10.7 billion for the six months ended June 30, 2009 compared to RMB12.6 billion over the same period in 2008, primarily due to a decrease in the average cost of interest-bearing liabilities partially offset by an increase in the average balance of interest-bearing liabilities, in particular with respect to deposits from customers. The average cost of our interest-bearing liabilities was 1.98% and 2.78% for the six months ended June 30, 2009 and 2008, respectively.

Interest Expense on Deposits from Customers

Deposits from customers have been our primary source of funding. Interest expense on deposits from customers represented 77.1% and 71.0% of our total interest expense for the six months ended June 30, 2009 and 2008, respectively.

Interest expense on deposits from customers decreased by 7.7% to RMB8.2 billion for the six months ended June 30, 2009 compared to RMB8.9 billion over the same period in 2008, primarily due to a decrease in the average cost to 1.83% from 2.64%, partially offset by an increase of 33.3% in the average balance.

The following table sets forth, for the years indicated, the average balance, interest expense and average cost for corporate and retail deposits by product type.

	For the six months ended June 30,					
	2008			2009		
	Average balance(1)	Interest expense	Average cost(2)	Average balance(1)	Interest expense	Average cost(2)
	(unaudited) (In millions of RMB, except percentages)					
Corporate deposits(3)						
Demand	258,273	1,281	0.99%	307,299	1,012	0.66%
Time	308,150	6,387	4.15%	437,341	5,716	2.61%
Subtotal	566,423	7,668	2.71%	744,640	6,728	1.81%
Retail deposits						
Demand	30,199	111	0.74%	34,801	61	0.35%
Time	78,604	1,146	2.92%	120,839	1,449	2.40%
Subtotal	108,803	1,257	2.31%	155,640	1,510	1.94%
Total deposits from customers	**675,226**	**8,925**	**2.64%**	**900,280**	**8,238**	**1.83%**

Notes:

(1) Calculated as the average of the daily balances of the Bank and the average monthly balances of our subsidiaries.

(2) Calculated on an annualized basis.

(3) Consist of deposits from corporate customers, government authorities and other organizations.

The largest component of our interest expense on deposits from customers has been interest expense on corporate deposits, representing 81.7% and 85.9% of our total interest expense on deposits from customers for the six months ended June 30, 2009 and 2008, respectively.

Interest expense on corporate deposits decreased by 12.3% to RMB6.7 billion for the six months ended June 30, 2009 compared to RMB7.7 billion over the same period in 2008, primarily due to a decrease in the average cost to 1.81% in the six months ended June 30, 2009 from 2.71% over the same period in 2008, partially offset by an increase in the average balance.

Interest expense on corporate time deposits decreased by 10.5%, primarily due to a decrease in the average cost partially offset by an increase in the average balance. The average cost on corporate time deposits decreased to 2.61% for the six months ended June 30, 2009 compared to 4.15% over the same period in 2008 primarily due to lower PBOC benchmark interest rates during the first half of 2009. The average balance of our corporate time deposits increased by 41.9% to RMB437.3 billion for the six months ended June 30, 2009 compared to RMB308.2 billion over the same period in 2008 primarily due to increased liquidity from monetary easing by the PBOC and a generally more conservative investment environment due to the economic slow down in the PRC. As a percentage of the average balance of our total corporate deposits, the average balance of corporate time deposits increased to 58.7% for the six months ended June 30, 2009 compared to 54.4% over the same period in 2008, primarily reflecting increased demand for time deposits due to a more conservative investment environment and its relative higher interest rates than demand deposits.

Interest expense on corporate demand deposits decreased by 21.0%, primarily due to a decrease in the average cost to 0.66% for the six months ended June 30, 2009 compared to 0.99% over the same period in 2008 partially offset by an increase in the average balance. The average balance of corporate demand deposits increased by 19.0% to RMB307.3 billion for the six months ended June 30, 2009 compared to RMB258.3 billion over the same period in 2008 primarily due to a more conservative investment environment.

Interest expense on retail deposits increased by 20.1% to RMB1.5 billion for the six months ended June 30, 2009 compared to RMB1.3 billion over the same period in 2008, primarily due to an increase in the average balance partially offset by a decrease in the average cost. The average balance of retail deposits increased by 43.0% to RMB155.6 billion for the six months ended June 30, 2009 compared to RMB108.8 billion over the same period in 2008. The average cost decreased to 1.94% for the six months ended June 30, 2009 compared to 2.31% over the same period in 2008. Interest expense on retail time deposits increased by 26.4% to RMB1.5 billion for the six months ended June 30, 2009 as compared to RMB1.1 billion over the same period in 2008, primarily due to an increase in the average balance of 53.7% to RMB120.8 billion in the six months ended June 30, 2009 from RMB78.6 billion over the same period in 2008. This was partially offset by a decrease in the average cost to 2.40% for the six months ended June 30, 2009 compared to 2.92% over the same period in 2008, primarily reflecting a lower interest rate environment in the first half of 2009. The increases in the average balances of our retail time and demand deposits were primarily attributable to a generally more conservative investment environment in the first half of 2009. As a percentage of our total retail deposits, our average balance of retail time deposits increased to 77.6% for the six months ended June 30, 2009 compared to 72.2% over the same period in 2008, reflecting an increased demand for time deposits due to a more conservative investment environment and its relative higher interest rates than demand deposits.

Interest Expense on Due to and Placements from Banks and Other Financial Institutions

Due to and placements from banks and other financial institutions consist primarily of short term borrowings from banks at higher interest rates and long term borrowings from non-bank financial institution at lower interest rates.

Interest expense on due to and placements from banks and other financial institutions decreased by 46.1% to RMB1.6 billion for the six months ended June 30, 2009 compared to RMB3.0 billion over the same period in 2008, primarily due to a decrease in the average balance coupled with a decrease in the average cost to 2.28% for the six months ended June 30, 2009 compared to 3.04% over the same period in 2008. The average balance decreased by 28.2% to RMB139.8 billion for the six months ended June 30, 2009 compared to RMB194.7 billion over the same period in 2008, primarily due to lower interbank borrowings as well as an increase in our deposit base. The decrease in the average cost was primarily attributable to a lower interest rate environment as a result of a decrease in PBOC benchmark interest rates in late 2008.

Interest Expense on Debt Securities in Issue

Interest expense on our total debt securities in issue increased by 12.2% to RMB761 million for the six months ended June 30, 2009 compared to RMB678 million over the same period in 2008, primarily due to an increase in the average cost and, to a lesser extent, an increase in the average balance. The average balance of debt securities in issue increased slightly by 1.4% to RMB33.9 billion for the six months ended June 30, 2009 from RMB33.5 billion over the same period in 2008 while average cost increased to 4.48% for the six months ended June 30, 2009 as compared to 4.05% over the same period in 2008. The increase in average cost was primarily due to the issuance of RMB5 billion hybrid capital bonds with a higher average cost in March 2009.

Net Interest Spread and Net Interest Margin

Our net interest spread (on an annualized basis) decreased to 2.31% for the six months ended June 30, 2009 compared to 3.20% over the same period in 2008. The decrease in net interest spread for the six months ended June 30, 2009 compared to the same period in 2008 reflected a greater decrease in the average yield than the decrease in the average cost over the period.

Our net interest income decreased by 5.1% to RMB14.0 billion for the six months ended June 30, 2009 compared to RMB14.7 billion over the same period in 2008. Our net interest income decreased while the average balance of our interest-earning assets for the six months ended June 30, 2009 compared to the same period in 2008 increased. As a result, our net interest margin (on an annualized basis) decreased to 2.43% for the six months ended June 30, 2009 compared to 3.22% over the same period in 2008.

Net Fee and Commission Income

Net fee and commission income represented 10.8% and 17.4% of our total operating income for the six months ended June 30, 2009 and 2008, respectively. The following table sets forth, for the years indicated, the principal components of our net fee and commission income.

	For the six months ended June 30,	
	2008	2009
	(unaudited)	
	(In millions of RMB)	
Fee and commission income		
Consulting and financial advisory service fees(1)	1,688	769
Credit commitment fees(2)	378	423
Trust and other fiduciary service fees(3)	471	319
Bank card commission and fee income(4)	347	565
Settlement service fees(5)	175	200
Securities underwriting service fees(6)	58	73
Others(7)	94	93
Subtotal	3,211	2,442
Fee and commission expenses	(139)	(144)
Net fee and commission income	**3,072**	**2,298**

Notes:

(1) Primarily consist of service fees such as those from formulating overall financing plans, structuring financing solutions and arranging credit for our customers.

(2) Primarily consist of fees from providing bank acceptance bills, guarantees, letters of credit, credit guarantees and commitments.

(3) Primarily consist of fees from entrusted financial management, asset trusts, pension trusts, entrusted loans and third party depositories.

(4) Primarily consist of fees from interbank clearing, installment loans, cash withdrawals, transfers and annual fees.

(5) Primarily consist of fees from international settlements, domestic settlements and online banking settlements.

(6) Primarily consist of fees from underwriting and distributing financing bonds, government bonds and corporate bonds.

(7) Primarily consist of fees from online services, safe deposit boxes, deposit verification and airline ticketing agency services.

Our net fee and commission income decreased by 25.2% to RMB2.3 billion for the six months ended June 30, 2009 compared to RMB3.1 billion over the same period in 2008. This decrease was primarily due to a decrease in consulting and financial advisory service fees.

Consulting and financial advisory service fees decreased by 54.4% to RMB769 million for the six months ended June 30, 2009 compared to RMB1,688 million over the same period in 2008. The decrease in consulting and financial advisory service fees was mainly due to lower demand for loan arrangement services as the PBOC lowered benchmark interest rates and increased liquidity in the market since late 2008.

Credit commitment fees increased by 11.9% to RMB423 million for the six months ended June 30, 2009 compared to RMB378 million over the same period in 2008. The increase in credit commitment fees was primarily due to increased customers and increased demand for credit commitment services as we issued more letters of credit and bank acceptance bills.

Trust and other fiduciary service fees decreased by 32.3% to RMB319 million for the six months ended June 30, 2009 compared to RMB471 million over the same period in 2008. The decrease in trust and other fiduciary service fees for the six months ended June 30, 2009 compared to for the six months ended June 30, 2008 was primarily due to increased competition for trust services and decreased margins as a result of the lower interest rate environment.

Bank card commission and fee income increased by 62.8% to RMB565 million for the six months ended June 30, 2009 compared to RMB347 million over the same period in 2008. The increase in bank card commission and fee income was primarily due to the continued expansion of our credit card business and an increase in issuance of credit cards and increased transaction volume. As of June 30, 2009, the total number of credit cards issued increased by 24.6% to 6.78 million from 5.44 million as of June 30, 2008, with the transaction volume increasing 51.2% to RMB45.5 billion.

Settlement service fees increased by 14.3% to RMB200 million for the six months ended June 30, 2009 compared to RMB175 million over the same period in 2008. The increase in settlement service fees for the six months ended June 30, 2009 compared to over the same period in 2008 was primarily due to an increase in volume of transactions from a growth in domestic customers and increased domestic demand for settlement services partially offset by lower demand for international settlement services.

Securities underwriting service fees increased by 25.9% to RMB73 million for the six months ended June 30, 2009 compared to RMB58 million over the same period in 2008. The increase in securities underwriting service fees was primarily due to our active expansion of the securities underwriting business.

Other fee and commission income decreased slightly by 1.1% to RMB93 million for the six months ended June 30, 2009 compared to RMB94 million over the same period in June 30, 2008.

Our fee and commission expenses increased by 3.6% to RMB144 million for the six months ended June 30, 2009 compared to RMB139 million over the same period in 2008, primarily due to our business expansion. Fee and commission expenses as a percentage of fee and commission income increased to 5.9% in the six months ended June 30, 2009 as compared to 4.3% in the same period in 2008 mainly due to a decrease in the proportion of fee and commission income that has lower expenses.

Net Trading Income/(Loss)

The following table sets forth, for the periods indicated, the principal components of our net trading income/(loss).

	For the six months ended June 30,	
	2008	2009
	(unaudited) (In millions of RMB)	
Net trading income/(loss)		
Foreign exchange gain/(loss)	229	155
Gain/(loss) on interest rate instruments	(58)	(100)
Gain/(loss) on precious metal and other products	(326)	(32)
Total net trading income/(loss)	**(155)**	**23**

In the six months ended June 30, 2009, our total net trading income was RMB23 million mainly reflecting a net gain on foreign exchange instruments partially offset by losses on interest rate instruments, and precious metals and other products. The net foreign exchange gain of RMB155 million for the six months ended June 30, 2009 as compared to RMB229 million for the same period in 2008 mainly related to a decreased foreign exchange transaction volume from our customers. The net loss on interest rate instruments of RMB100 million primarily reflected realized losses on trading of such instruments as well as fair value adjustments. The net loss on precious metal and other products of RMB32 million was primarily due to trading losses on precious metals over the first half of 2009.

In the six months ended June 30, 2008, our total net trading loss was RMB155 million mainly reflecting losses on precious metals and other products, and interest rate instruments, partially offset by foreign exchange gains. The loss on precious metals and other products of RMB326 million mainly reflected a decrease in fair value of our equity investment in UCBH, as compared with our contracted purchase price mainly due to a decrease in UCBH's share price. See "Corporate History and Organizational Structure — Our Investment in Other Financial Institutions — UCBH Holdings, Inc." and "Financial Information — Recent Developments."

The net loss on interest rate instruments of RMB58 million was primarily due to realized losses on trading of such instruments as well as fair value adjustments.

Net Gain /(Loss) on Disposal of Available-for-sale Securities

The following table sets forth, for the years indicated, our net gain or loss on available-for-sale securities.

	For the six months ended June 30,	
	2008	2009
	(unaudited) (In millions of RMB)	
Net gain /(loss) on disposal of available-for-sale securities	27	4,959

For the six months ended June 30, 2009, we had a net gain on disposal of available-for-sale securities of RMB5.0 billion as compared to RMB27 million for the same period in 2008. This increase was mainly attributable to the disposal of all our interests in Haitong Securities over the first half of 2009, generating a gain of RMB4.9 billion.

We initially obtained 549 million shares in Haitong Securities through judicial rulings in 2004 and 2005 as a result of a default by a borrower on a loan we granted, with such shares pledged as collateral. Our shares in Haitong Securities were initially valued on our books at RMB549 million and were subject to sale restrictions. In 2007, Haitong Securities merged with Shanghai Urban Argo-Business, a listed company on the Shanghai Stock Exchange (stock code 600837), whereby Haitong Securities remained the surviving listed company after the merger. As a result of this merger, we held 190 million shares in Haitong Securities. In the first half of 2008, Haitong Securities issued a stock dividend and conversion shares, thereby increasing our share holding in Haitong Securities to 380 million shares as of December 31, 2008. Our shares in Haitong Securities had a market value of approximately RMB3.1 billion as of December 31, 2008.

All sale restrictions on our shares in Haitong Securities were lifted on December 29, 2008. On June 22, 2009, we sold all 380 million shares of Haitong Securities at an average selling price of RMB14.33 per share and recognized a gain of RMB4.9 billion.

Impairment Losses on Assets

Impairment losses on assets consist primarily of provisions charged on loans, investments and other assets. Provisions charged for impairment losses increased significantly by 76.5% to RMB2,851 million for the six months ended June 30, 2009 compared to RMB1,615 million for the same period in 2008.

The following table sets forth, for the years indicated, the principal components of our provisions charged for impairment losses on assets.

	For the six months ended June 30,	
	2008	2009
	(unaudited)	
	(In millions of RMB)	
Loans and advances to customers	1,390	2,405
Available-for-sale	202	421
Held-to-maturity	—	(54)
Finance lease receivables	24	69
Others[(1)]	(1)	10
Total	1,615	2,851

Note:

(1) Others mainly consists of impairment losses on repossessed assets obtained through foreclosure.

Provisions charged for impairment losses on loans and advances to customers increased by 73.0% to RMB2,405 million for the six months ended June 30, 2009 compared to RMB1,390 million for the same period in 2008. For details on changes in our allowance for impairment losses on loans, see "Description of Our Assets and Liabilities — Asset Quality of Our Loan Portfolio — Changes to the Allowance for Impairment Losses."

For the six months ended June 30, 2009, our provisions charged for impairment losses on available-for-sale investment securities was RMB421 million (including a provision of RMB12 million against our exposure to subprime mortgage securities as of June 30, 2009, which was not material) primarily due to fair-market value decreases in securities held in foreign denominated currencies. For the six months ended June 30, 2009, we reversed provisions for held-to-maturity investment securities of RMB54 million as the securities that this provision related to matured and we received full payment. Provisions for finance lease receivables were RMB69 million for the six months ended June 30, 2009 mainly reflecting provisions relating to our subsidiary, Minsheng Financial Leasing Co, Ltd., that was newly established in 2008.

Operating Expenses

The following table sets forth, for the years indicated, the principal components of our total operating expenses.

	For the six months ended June 30,	
	2008	2009
	(unaudited) (In millions of RMB)	
Staff cost	3,992	4,034
Business tax and surcharges	1,413	1,266
Business development expenses	391	409
Office and lease expenses	628	873
Other general and administrative expenses[(1)]	1,444	1,796
Total operating expenses	**7,868**	**8,378**

Note:

(1) Consist primarily of depreciation, automobile, electronic equipment, travelling, conference, postage and telegraph, and other general and administrative expenses.

Our operating expenses increased by 6.5% to RMB8.4 billion for the six months ended June 30, 2009 compared to RMB7.9 billion over the same period in 2008.

Staff Costs

Staff costs are the largest component of our operating expenses, representing 48.1% and 50.7% of our total operating expenses for the six months ended June 30, 2009 and 2008, respectively.

The following table sets forth, for the periods indicated, the components of our staff costs.

	For the six months ended June 30,	
	2008	2009
	(unaudited) (In millions of RMB)	
Staff costs		
Salaries and bonuses	2,969	2,960
Other benefits[(1)]	1,023	1,074
Total staff costs	**3,992**	**4,034**

Note:

(1) Consist primarily of statutory social security and additional health and pension benefits.

Staff costs remained stable from the first half of 2008 to the first half of 2009. Staff costs were RMB4,034 million for the six months ended June 30, 2009 compared to RMB3,992 million for the same period in 2008.

Business Tax and Surcharges

Business tax and surcharges mainly relate to revenue generated from our provision of financial products and services with respect to lending (interest income), financial leasing, transfer of securities, financial advisory services, and other financial services. Business tax and surcharges decreased by 10.4% to RMB1,266 million for the six months ended June 30, 2009 compared to

RMB1,413 million for the same period in 2008. The decrease in business tax and surcharges was due to a decrease in our revenues subject to these taxes.

Business Development Expenses

Business development expenses increased by 4.6% to RMB409 million for the six months ended June 30, 2009 compared to RMB391 million for the same period in 2008, primarily due to our overall business growth.

Office and Lease Expenses

Office and lease expenses increased by 39.0% to RMB873 million for the six months ended June 30, 2009 compared to RMB628 million for the same period in 2008. The increase in office and lease expenses was primarily due to the increase in the number of our branches for business growth, including expenses relating to operating those branches and increased rent.

Other General and Administrative Expenses

Other general and administrative expenses increased by 24.4% to RMB1,796 million for the six months ended June 30, 2009 compared to RMB1,444 million for the same period in 2008, reflecting our overall business growth.

Other Operating Expenses, net

Other net operating expenses mainly include other operating income such as tax rebates and other operating expenses such as provision charges for credit commitments, including acceptances, letters of guarantee, and letters of credit. Other net operating expenses was RMB415 million for the six months ended June 30, 2009 while such expenses were immaterial for the same period in 2008. Other net operating expenses for the six months ended June 30, 2009 was primarily related to provision charges due to the increase in off-balance sheet amounts coupled with our more conservative approach in assessing provisions due to the economic downturn.

Profit Before Tax

As a result of the foregoing, our profit before tax increased by 17.5% to RMB9.6 billion for the six months ended June 30, 2009 compared to RMB8.2 billion for the same period in 2008.

Income Tax

The following table sets forth our profit before tax, income tax expense and effective tax rate for the six months ended June 30, 2009 and 2008.

	For the six months ended June 30,	
	2008	2009
	(unaudited)	
	(In millions of RMB)	
Profit before tax	8,156	9,586
Income tax	2,110	2,207
Effective tax rate	**25.9%**	**23.0%**

The applicable income tax rate (except for our Shenzhen branch) was 25% for 2008 and the six months ended June 30, 2009. The decrease in our effective tax rate to 23.0% for the six months ended June 30, 2009 as compared to 25.9% for the same period in 2008 was mainly due to the reduction of the tax deductability of certain expenses in the first half of 2008. In June 2008, the National Tax Administration passed supplementary regulations reducing the pre-tax deductibility of certain performance based compensation, thereby increasing our income tax over the first half of 2008 by RMB263 million.

Net Profit

As a result of the foregoing factors, our net profit increased by 22.0% to RMB7.4 billion for the six months ended June 30, 2009 compared to RMB6.0 billion for the same period in 2008.

Years Ended December 31, 2008, 2007 and 2006

Net Interest Income

Net interest income has historically been the largest component of our total operating income, representing 86.9%, 89.3% and 92.7% of our total operating income for the years ended December 31, 2008, 2007 and 2006, respectively.

The following table sets forth, for the years indicated, our interest income, interest expense and net interest income.

	For the year ended December 31,		
	2006	2007	2008
	(in millions of RMB)		
Interest income	27,361	40,070	56,311
Interest expense	(11,193)	(17,490)	(25,931)
Net interest income	16,168	22,580	30,380

Our net interest income increased by 34.5% to RMB30.4 billion in 2008 compared to RMB22.6 billion in 2007, which in turn increased by 39.7% compared to RMB16.2 billion in 2006. The lower growth rate of net interest income in 2008 compared with the growth rate in 2007 reflected a lower growth rate in interest income in 2008 of 40.5% compared to 46.4% in 2007, partially offset by a decrease in the growth rate in interest expense in 2008 of 48.3% compared to 56.3% in 2007.

The table below sets forth, for the years indicated the average balances of our assets and liabilities and the related interest income or expense and average yields (for assets) and costs (for liabilities).

	For the year ended December 31,								
	2006			2007			2008		
	Average balance(1)	Interest income	Average yield(2)	Average balance(1)	Interest income	Average yield(2)	Average balance(1)	Interest income	Average yield(2)
	(in millions of RMB, except percentages)								
Assets									
Loans and advances to customers, gross	426,625	22,997	5.39%	500,063	32,141	6.43%	591,183	44,433	7.52%
Investment securities and trading assets	89,511	2,697	3.01%	127,033	4,315	3.40%	140,041	5,451	3.89%
Due from and placements with banks and other financial institutions(3)	33,132	882	2.66%	65,232	2,281	3.50%	93,540	4,000	4.28%
Balances with central banks(4)	48,331	778	1.61%	76,870	1,322	1.72%	135,555	2,216	1.63%
Others(5)	137	7	5.11%	179	11	6.15%	4,399	211	4.80%
Total interest-earning assets	**597,736**	**27,361**	**4.58%**	**769,377**	**40,070**	**5.21%**	**964,718**	**56,311**	**5.84%**
Allowance for impairment losses(6)	(5,724)			(7,135)			(9,923)		
Non-interest-earning assets(6)(7)	11,351			15,701			19,435		
Total assets	**603,363**			**773,943**			**974,230**		

	For the year ended December 31,								
	2006			2007			2008		
	Average balance(1)	Interest expense	Average cost(2)	Average balance(1)	Interest expense	Average cost(2)	Average balance(1)	Interest expense	Average cost(2)
	(in millions of RMB, except percentages)								
Liabilities									
Deposits from customers	500,136	9,495	1.90%	600,851	13,181	2.19%	708,455	18,428	2.60%
Due to and placements from banks and other financial institutions(8)	63,140	1,160	1.84%	108,763	3,205	2.95%	168,721	6,045	3.58%
Debt securities in issue(9)	13,569	525	3.87%	27,839	1,104	3.97%	33,500	1,410	4.21%
Others(10)	687	13	1.89%	—	—	—	2,518	48	1.91%
Total interest-bearing liabilities	**577,532**	**11,193**	**1.94%**	**737,453**	**17,490**	**2.37%**	**913,194**	**25,931**	**2.84%**
Non-interest-bearing liabilities(6)(11)	7,443			10,671			14,738		
Total liabilities	**584,975**			**748,124**			**927,932**		
Net interest income		**16,168**			**22,580**			**30,380**	
Net interest spread(12)			**2.64%**			**2.84%**			**3.00%**
Net interest margin(13)			**2.70%**			**2.93%**			**3.15%**

Notes:

(1) Calculated as the average of the daily balances of the Bank and the average monthly balances of our subsidiaries.

(2) Calculated on an annualized basis.

(3) Consist primarily of deposits with banks and other financial institutions, placements with banks and other financial institution and assets purchased under resale agreements.

(4) Consist primarily of statutory deposit reserves and surplus deposit reserves.

(5) Consist primarily of finance lease receivables related to Minsheng Financial Leasing Co. Ltd.

(6) Calculated as the average of the beginning and ending balances for the period.

(7) Consist primarily of cash, derivative financial assets, property, plant and equipment, deferred income tax assets and other assets.

(8) Consist primarily of deposits from banks and other financial institutions, placements from banks and other financial institutions and assets sold under repurchase agreements.

(9) Consist primarily of financial bonds, subordinated bonds and hybrid capital bonds.

(10) Consist primarily of security deposits for financial leases related to Minsheng Financial Leasing Co. Ltd.

(11) Consist of derivative financial liabilities, deferred income tax liabilities and other liabilities.

(12) Calculated as the difference between the average yield on total interest-earning assets and the average cost on total interest-bearing liabilities.

(13) Calculated by dividing net interest income by the average balance of total interest-earning assets.

The following table sets forth, for the periods indicated, the allocation of changes in our interest income and interest expense due to changes in volume and changes in rate. Changes in volume are measured by changes in the average balances and changes in rate are measured by changes in the average rates. Changes caused by both volume and rate have been allocated to changes in rate.

	For the year ended December 31,					
	2007 vs. 2006			2008 vs. 2007		
	Increase/(decrease) due to		Net increase/ (decrease)(3)	Increase/(decrease) due to		Net increase/ (decrease)(3)
	Volume(1)	Rate(2)		Volume(1)	Rate(2)	
	(in millions of RMB)					
Assets						
Loans and advances to customers, gross	3,959	5,185	9,144	5,857	6,435	12,292
Investment securities and trading assets	1,131	487	1,618	442	694	1,136
Due from and placements with banks and other financial institutions	855	544	1,399	990	729	1,719
Balances with central banks	459	85	544	1,009	(115)	894
Others	2	2	4	259	(59)	200
Changes in interest income	**6,406**	**6,303**	**12,709**	**8,557**	**7,684**	**16,241**
Liabilities						
Deposits from customers	1,912	1,774	3,686	2,361	2,886	5,247
Due to and placements from banks and other financial institutions	838	1,207	2,045	1,767	1,073	2,840
Debt securities in issue	552	27	579	224	82	306
Others	(13)	—	(13)	48	—	48
Changes in interest expense	**3,289**	**3,008**	**6,297**	**4,400**	**4,041**	**8,441**
Changes in net interest income	**3,117**	**3,295**	**6,412**	**4,157**	**3,643**	**7,800**

Notes:

(1) Represents the average balance for the year minus the average balance for the previous year, multiplied by the average yield/cost for the previous year.

(2) Represents the average yield/cost for the year minus the average yield/cost for the previous year, multiplied by the average balance for the year.

(3) Represents interest income/expense for the year minus interest income/expense for the previous year.

Interest Income

Our interest income increased by 40.5% to RMB56.3 billion in 2008 compared to RMB40.1 billion in 2007, which in turn increased by 46.4% compared to RMB27.4 billion in 2006, due to both an increase in the average balance of interest-earning assets and increase in the average yield. The average yield on interest-earning assets was 5.84%, 5.21% and 4.58% in 2008, 2007 and 2006, respectively.

Interest Income from Loans to Customers

Interest income from loans to customers has been historically the largest component of our interest income, representing 78.9%, 80.2% and 84.1% of our total interest income in 2008, 2007 and 2006, respectively.

The following table sets forth, for the years indicated, the average balance, interest income and average yield for each component of our loans to customers.

	For the year ended December 31,								
	2006			2007			2008		
	Average balance[1]	Interest income	Average yield[2]	Average balance[1]	Interest income	Average yield[2]	Average balance[1]	Interest income	Average yield[2]
	(in millions of RMB, except percentages)								
Corporate loans	321,482	17,890	5.56%	388,274	25,458	6.56%	460,413	34,266	7.44%
Discounted bills	43,574	1,615	3.71%	29,070	1,529	5.26%	27,479	2,851	10.38%
Retail loans	61,569	3,492	5.67%	82,719	5,154	6.23%	103,291	7,316	7.08%
Total loans to customers	**426,625**	**22,997**	**5.39%**	**500,063**	**32,141**	**6.43%**	**591,183**	**44,433**	**7.52%**

Notes:

(1) Calculated as the average of the daily balances of the Bank and the average monthly balances of our subsidiaries.

(2) Calculated on an annualized basis.

Interest income from loans to customers increased by 38.2% to RMB44.4 billion in 2008 compared to RMB32.1 billion in 2007, which in turn increased by 39.8% compared to RMB23.0 billion in 2006, primarily due to an increase in the average balance and the average yield. The average yield increased to 7.52% in 2008 compared to 6.43% in 2007 and 5.39% in 2006.

The largest component of our interest income from loans has been interest income from corporate loans, representing 77.1%, 79.2% and 77.8% of our total interest income from loans to customers for the years ended December 31, 2008, 2007 and 2006, respectively. Interest income from corporate loans grew at a CAGR of 38.4% from 2006 to 2008. However, interest income from our retail loan portfolio has shown the highest rate of growth, with a CAGR of 44.7% from 2006 to 2008, reflecting our strategy of expanding our retail loan business coupled with higher average yield. As a percentage of our total interest income from loans to customers, interest income from our retail loan portfolio increased to 16.5% in 2008 compared to 16.0% in 2007 and 15.2% in 2006.

2008 Compared to 2007. Interest income from corporate loans increased by 34.6% to RMB34.3 billion in 2008 compared to RMB25.5 billion in 2007, primarily due to an increase in the average balance of 18.6% to RMB460.4 billion in 2008 from RMB388.3 billion in 2007, coupled with a increase in average yield to 7.44% in 2008 from 6.56% in 2007. Our average corporate loans balance increased in 2008 compared to 2007, reflecting our overall business growth. The increase in the average yield on corporate loans was primarily due to a combination of (i) the continued effect of the increase in the PBOC benchmark interest rates in 2007 and (ii) a greater demand for loans, prior to the economic downturn near the later part of 2008, allowing us to charge higher interest rates.

Interest income from discounted bills increased by 86.5% to RMB2.9 billion in 2008 compared to RMB1.5 billion in 2007, primarily due to a significant increase in the average yield, partially offset by a minor decrease in the average balance. The average yield of discounted bills increased to 10.38% in 2008 compared to 5.26% in 2007, primarily reflecting an increase in the PBOC benchmark interest rates and increased turnover from the trading of these discounted bills, allowing us to achieve a better discount rate.

Interest income from retail loans increased by 41.9% to RMB7.3 billion in 2008 compared to RMB5.2 billion in 2007, primarily due to an increase in the average balance coupled with an increase in the average yield. The average balance of retail loans increased by 24.9% to RMB103.3 billion in 2008 compared to RMB82.7 billion in 2007, primarily due to our efforts to expand our retail loan business. The average yield increased to 7.08% in 2008 from 6.23% in 2007, primarily due to an increase in the PBOC benchmark interest rates.

2007 Compared with 2006. Interest income from corporate loans increased by 42.3% to RMB25.5 billion in 2007 compared to RMB17.9 billion in 2006, primarily due to an increase in average yield to 6.56% in 2007 compared to 5.56% in 2006 and to a lesser extent an increase in average balance. The increase in the average yield of corporate loans reflected the effect of the increase in the PBOC benchmark rates in 2007. The average balance of corporate loans increased by 20.8% to RMB388.3 billion in 2007 compared to RMB321.5 billion in 2006, in line with our business growth and an increased demand for loans.

Interest income from discounted bills decreased by 5.3% to RMB1.5 billion in 2007 compared to RMB1.6 billion in 2006, primarily due to a decrease in the average balance partially offset by an increase in average yield. The average balance of discounted bills decreased by 33.3% to RMB29.1 billion in 2007 compared to RMB43.6 billion in 2006, primarily attributable to a shifting of resources from marketing discounted bills to loans. The average yield increased to 5.26% in 2007 compared to 3.71% in 2006, primarily due to increased turnover from trading of these discounted bills, allowing us to achieve a better discount rate.

Interest income from retail loans increased by 47.6% to RMB5.2 billion in 2007 compared to RMB3.5 billion in 2006, primarily due to an increase in the average balance and, to a lesser extent, an increase in the average yield. The average balance of retail loans increased by 34.4% to RMB82.7 billion in 2007 compared to RMB61.6 billion in 2006, primarily due to an increase in the average balance of residential mortgage loans, which resulted from increased market demand and our efforts to expand this business. The average yield increased to 6.23% in 2007 compared to 5.67% in 2006, reflecting the effect of the increase in the PBOC benchmark rates.

Interest Income from Investment Securities

Interest income from investment securities has been the second largest component of our interest income, representing 9.7%, 10.8% and 9.9% of our interest income for the years ended December 31, 2008, 2007 and 2006, respectively.

Interest income from investments securities increased by 26.3% to RMB5.5 billion in 2008 compared to RMB4.3 billion in 2007, primarily due to an increase in the average yield, coupled with an increase in the average balance. The average yield increased to 3.89% in 2008 from 3.40% in 2007, primarily reflecting the continuing increases to benchmark rates from 2007. The average balance increased by 10.2% to RMB140.0 billion in 2008 compared to RMB127.0 billion in 2007, primarily due to an increase in our funding.

Interest income from investment securities increased by 60.0% to RMB4.3 billion in 2007 compared to RMB2.7 billion in 2006, primarily due to an increase in the average balance. The average balance of investments and trading assets increased by 41.9% to RMB127.0 billion in 2007 compared to RMB89.5 billion in 2006, primarily due to an increase in our funding. The average yield was 3.40% and 3.01% in 2007 and 2006, respectively.

Interest Income from Due from and Placements with Banks and Other Financial Institutions

Interest income from due from and placements with banks and other financial institutions increased by 75.4% to RMB4.0 billion in 2008 compared to RMB2.3 billion in 2007, primarily due to an increase in the average balance coupled with an increase in average yield. The average balance increased by 43.4% to RMB93.5 billion in 2008 compared to RMB65.2 billion in 2007, primarily due to our continued efforts to develop the interbank lending market in order to take advantage of a wider interest rate spread. The increase in the average yield to 4.28% in 2008 compared to 3.50% in 2007 primarily reflected an increase in the interest rates for interbank placements reflecting the effect of a tightened money supply in China for most of 2008.

Interest income from due from and placements with banks and other financial institutions increased by 158.6% to RMB2.3 billion in 2007 compared to RMB0.9 billion in 2006, primarily due to an increase in the average balance, coupled with an increase in the average yield. The average balance increased by 96.9%, to RMB65.2 billion in 2007 compared to RMB33.1 billion in 2006, primarily due to our focus on developing the interbank lending market in order to take advantage of a wider interest rate spread. The average yield increased to 3.50% in 2007 compared to 2.66% in 2006 primarily due to an increase in the interest rates for interbank placements.

Interest Income from Balances with Central Banks

Interest income from balances with central banks increased by 67.6% to RMB2.2 billion in 2008 compared to RMB1.3 billion in 2007, primarily due to an increase in the average balance, which was partially offset by a decrease in the average yield. The average balance increased by 76.3% to RMB135.6 billion in 2008 from RMB76.9 billion in 2007, primarily due to increases in our statutory deposit reserves, reflecting an increase in deposits from customers. The average yield decreased slightly to 1.63% in 2008 from 1.72% in 2007.

Interest income from balances with central banks increased by 69.9% to RMB1.3 billion in 2007 compared to RMB0.8 billion in 2006, primarily due to an increase in the average balance, coupled with a slight increase in the average yield. The average balance increased by 59.0% to RMB76.9 billion in 2007 from RMB48.3 billion in 2006, primarily due to the growth of our statutory deposit reserves in line with the increase in deposits from customers and a gradual increase in the required reserve ratio. The average yield increased slightly to 1.72% in 2007 from 1.61% in 2006.

Interest Expense

Interest expense increased by 48.3% to RMB25.9 billion in 2008 compared to RMB17.5 billion in 2007, due to an increase in the average cost of interest-bearing liabilities along with an increase in the average balance of interest-bearing liabilities, in particular with respect to deposits from customers and amount due to banks and other financial institutions. The average cost of our interest-bearing liabilities was 2.84%, 2.37% and 1.94% in 2008, 2007 and 2006, respectively.

Interest Expense on Deposits from Customers

Historically, deposits from customers have been our primary source of funding. Interest expense on deposits from customers represented 71.1%, 75.4% and 84.8% of our total interest expense for the years ended December 31, 2008, 2007 and 2006, respectively.

Interest expense on deposits from customers increased by 39.8% to RMB18.4 billion in 2008 compared to RMB13.2 billion in 2007, primarily due to an increase in the average cost to 2.60% from 2.19% and supplemented by an increase of 17.9% in the average balance. Interest expense on deposits from customers increased by 38.8% to RMB13.2 billion in 2007 compared to RMB9.5 billion in 2006, primarily due to an increase of 20.1% in the average balance of deposits from customers and an increase in the average cost to 2.19% in 2007 compared to 1.90% in 2006.

The following table sets forth, for the years indicated, the average balance, interest expense and average cost for corporate and retail deposits by product type.

	For the year ended December 31,								
	2006			2007			2008		
	Average balance(1)	Interest expense	Average cost(2)	Average balance(1)	Interest expense	Average cost(2)	Average balance(1)	Interest expense	Average cost(2)
	(in millions of RMB, except percentages)								
Corporate deposits(3)									
Demand	178,238	1,688	0.95%	221,038	2,222	1.01%	264,151	2,602	0.99%
Time	243,161	6,533	2.69%	285,284	9,216	3.23%	328,578	13,349	4.06%
Subtotal	421,399	8,221	1.95%	506,322	11,438	2.26%	592,729	15,951	2.69%
Retail deposits									
Demand	23,658	175	0.74%	27,446	213	0.78%	30,915	197	0.64%
Time	55,079	1,099	2.00%	67,083	1,530	2.28%	84,811	2,280	2.69%
Subtotal	78,737	1,274	1.62%	94,529	1,743	1.84%	115,726	2,477	2.14%
Total deposits from customers	**500,136**	**9,495**	**1.90%**	**600,851**	**13,181**	**2.19%**	**708,455**	**18,428**	**2.60%**

Notes:

(1) Calculated as the average of the daily balances of the Bank and the average monthly balances of our subsidiaries.

(2) Calculated on an annualized basis.

(3) Consist of deposits from corporate customers, government authorities and other organizations.

The largest component of our interest expense on deposits from customers has been interest expense on corporate deposits, representing 86.6%, 86.8% and 86.6% of our total interest expense on deposits from customers in 2008, 2007 and 2006, respectively.

2008 Compared to 2007. Interest expense on corporate deposits increased by 39.4% to RMB16.0 billion in 2008 compared to RMB11.4 billion in 2007, primarily due to an increase in the average balance of our corporate deposits as a result of the expansion of our branch network and our increased marketing efforts, as well as an increase in the average cost to 2.69% in 2008 from 2.26% in 2007.

Interest expense on corporate time deposits increased by 44.8%, primarily due to an increase in the average balance, coupled with an increase in the average cost. The average balance of our corporate time deposits increased by 15.2% to RMB328.6 billion in 2008 compared to RMB285.3 billion in 2007. As a percentage of our total corporate deposits, the average balance of corporate time deposits decreased slightly to 55.4% in 2008 compared to 56.3% in 2007, primarily reflecting an increase in preference for demand deposits due to greater interest by corporate customers in maintaining liquidity for making investments. The average cost on corporate time deposits increased to 4.06% in 2008 compared to 3.23% in 2007 primarily due to increases in the PBOC benchmark rates.

Interest expense on corporate demand deposits increased by 17.1%, primarily due to an increase in the average balance, partially offset by a slight decrease in the average cost to 0.99% in 2008 compared to 1.01% in 2007. The average balance of corporate demand deposits increased by 19.5% to RMB264.2 billion in 2008 compared to RMB221.0 billion in 2007.

Interest expense on retail deposits increased by 42.2% to RMB2.5 billion in 2008 compared to RMB1.7 billion in 2007, primarily due to an increase in the average balance, coupled with an increase in the average cost to 2.14% in 2008 compared to 1.84% in 2007. Interest expense on retail time deposits increased by 49.0%, primarily due to an increase in the average balance and an increase in the average cost to 2.69% in 2008 compared to 2.28% in 2007, primarily reflecting an increase in the PBOC benchmark rates. Interest expense on retail demand deposits remained stable between 2008 and 2007 as a decrease in average cost was offset by an increase in average balance of 12.6% to

RMB30.9 billion in 2008 from RMB27.5 billion in 2007. The increases in the average balances of our retail time and demand deposits were primarily attributable to the expansion of our branch network and our marketing efforts to expand our retail banking business. As a percentage of our total retail deposits, our average balance of retail time deposits increased to 73.3% in 2008 compared to 71.0% in 2007, reflecting an increased demand for demand deposits due to the higher level of activity in the capital markets.

2007 Compared to 2006. Interest expense on corporate deposits increased by 39.1% to RMB11.4 billion in 2007 compared to RMB8.2 billion in 2006, primarily due to an increase in the average balances of both corporate time and demand deposits in line with our overall business growth. As a percentage of our total corporate deposits, the average balance of corporate time deposits decreased slightly to 56.3% in 2007 compared to 57.7% in 2006. The average cost of corporate time deposits increased to 3.23% in 2007 compared to 2.69% in 2006, primarily due to an increase in the PBOC benchmark rates. The average cost of corporate demand deposits increased slightly at 1.01% in 2007 compared to 0.95% in 2006.

Interest expense on retail deposits increased by 36.8% to RMB1.7 billion in 2007 compared to RMB1.3 billion in 2006, primarily due to an increase in the average balance and average cost. The average balance increased by 20.1% to RMB94.5 billion in 2007 from RMB78.7 billion in 2006, reflecting the expansion of our branch network and our marketing efforts to expand our retail banking business. The average cost increased to 1.84% in 2007 compared to 1.62% in 2006.

Interest Expense on Due to and Placements from Banks and Other Financial Institutions

Due to and placements from banks and other financial institutions consist primarily of short term borrowings from banks at high interest rates and long term borrowings from to non-bank financial institution at lower interest rates.

Interest expense on due to and placements from banks and other financial institutions increased by 88.6% to RMB6.0 billion in 2008 compared to RMB3.2 billion in 2007, primarily due to an increase in the average balance, coupled with an increase in the average cost to 3.58% in 2008 compared to 2.95% in 2007. The average balance increased by 55.1% to RMB168.7 billion in 2008 compared to RMB108.8 billion in 2007, primarily due to our continued efforts to develop the interbank lending market in order to take advantage of greater interest spread in 2008 as compared to 2007. The increase in the average cost was primarily attributable to an increase in the PBOC benchmark interest rates.

Interest expense on due to and placements from banks and other financial institutions increased by 176.3% to RMB3.2 billion in 2007 compared to RMB1.2 billion in 2006, primarily due to a 72.3% increase in the average balance and an increase in average cost. The increase in the average balance to RMB108.8 billion in 2007 compared to RMB63.1 billion in 2006 was primarily due to our effects to develop the interbank lending market in order to take advantage of greater interest spread in 2007 as compared to 2006. The average cost increased to 2.95% in 2007 compared to 1.84% in 2006, primarily due to an increase in the PBOC benchmark interest rates.

Interest Expense on Debt Securities in Issue

2008 Compared to 2007. Interest expense on our total debt securities in issue increased by 27.7% to RMB1.4 billion in 2008 compared to RMB1.1 billion in 2007, primarily due to an increase in the average balance and, to a lesser extent, an increase in the average cost. The average balance of debt securities in issue increased by 20.3% to RMB33.5 billion in 2008 from RMB27.8 billion in 2007 while average cost increased to 4.21% in 2008 as compared to 3.97% in 2007. This increase in average balance was primarily due to our issuance of approximately RMB12 billion in debt around mid-2007, which were outstanding for all of 2008. The increase in average cost was primarily due to an increase in the prevailing market interest rates.

2007 Compared to 2006. Interest expense on our total debt securities in issue increased by 110.3% to RMB1.1 billion in 2007 compared to RMB0.5 billion in 2006, primarily due to an increase in the average balance. The average balance of debt securities in issue increased by 105.2% to RMB27.8 billion in 2007 from RMB13.6 billion in 2006. This increase in average balance was primarily due to our new issuances of (i) a RMB6 billion floating interest 3-year bond with a rate based on the one-year PBOC time deposit rate set at each interest payment date plus 61 basis points and (ii) a RMB6 billion floating interest 5-year bond with a rate based on the one-year PBOC time deposit rate set at each interest payment date plus a spread of 76 basis points per annum, in order to increase our supplementary capital.

Net Interest Spread and Net Interest Margin

Our net interest spread increased to 3.00% in 2008 compared to 2.84% in 2007, which in turn increased from 2.64% in 2006. The increase in net interest spread from 2006 to 2008 reflected our ability to increase our average yield at a sufficient pace to more than offset the growth in the average cost of our interest-bearing liabilities during this period.

Our net interest income increased by 34.5% to RMB30.4 billion in 2008 compared to RMB22.6 billion in 2007, which in turn increased by 39.7% compared to RMB16.2 billion in 2006. Our net interest income increased at a higher rate than the average balance of our interest-earning assets from 2006 to 2008. As a result, our net interest margin increased to 3.15% in 2008 compared to 2.93% in 2007, which in turn increased from 2.70% in 2006.

Net Fee and Commission Income

Net fee and commission income represented 12.8%, 9.5% and 5.9% of our total operating income for the years ended December 31, 2008, 2007 and 2006, respectively. The following table sets forth, for the years indicated, the principal components of our net fee and commission income.

	For the year ended December 31,		
	2006	2007	2008
	(in millions of RMB)		
Fee and commission income			
Consulting and financial advisory service fees[(1)]	367	1,136	1,702
Credit commitment fees[(2)]	169	298	917
Trust and other fiduciary service fees[(3)]	190	406	603
Bank card commission and fee income[(4)]	150	397	920
Settlement service fees[(5)]	258	301	312
Securities underwriting service fees[(6)]	51	82	139
Others[(7)]	39	45	162
Subtotal	1,224	2,665	4,755
Fee and commission expenses	(197)	(274)	(294)
Net fee and commission income	**1,027**	**2,391**	**4,461**

Notes:

(1) Primarily consist of service fees such as those from formulating overall financing plans, structuring financing solutions and arranging credit for our customers.

(2) Primarily consist of fees from providing bank acceptance bills, guarantees, letters of credit, credit guarantees and commitments.

(3) Primarily consist of fees from entrusted financial management, asset trusts, pension trusts, entrusted loans and third party depositories.

(4) Primarily consist of fees from interbank clearing, installment loans, cash withdrawals, transfers and annual fees.

(5) Primarily consist of fees from international settlements, domestic settlements and online banking settlements.

(6) Primarily consist of fees from underwriting and distributing financing bonds, government bonds and corporate bonds.

(7) Consist primarily of fees from online services, safe deposit boxes, deposit verification and airline ticketing agency services.

Our net fee and commission income increased by 86.6% to RMB4.5 billion in 2008 compared to RMB2.4 billion in 2007, which in turn increased by 132.8% compared to RMB1.0 billion in 2006. These increases resulted from a combination of increases in all categories of fees and commissions, particularly consulting and financial advisory service fees, credit commitment commissions, settlement services fees, and trust and other fiduciary service fees.

Consulting and financial advisory service fees increased by 49.8% to RMB1,702 million in 2008 compared to RMB1,136 million in 2007, which in turn increased by 209.5% compared to RMB367 million in 2006. Consulting and financial advisory service fee income increased in 2007 from 2006 mainly due to our strengthened focus on arranging credit for customers, which became more profitable as liquidity in the market tightened and demand for loans increased. These fees increased at an even higher rate between 2007 and 2008 as market conditions in 2008 led to an increase in demand for loans at a time when liquidity was still relatively tight until monetary easing near the end of 2008.

Credit commitment fees increased by 207.7% to RMB917 million in 2008 compared to RMB298 million in 2007, which in turn increased by 76.3% compared to RMB169 million in 2006. This increase in credit commitment fees from 2006 to 2008 was primarily due to an increase in both customers and demand for credit commitment services.

Trust and other fiduciary service fees increased by 48.5% to RMB603 million in 2008 compared to RMB406 million in 2007, which in turn increased by 113.7% compared to RMB190 million in 2006. This increase in trust and other fiduciary service fees from 2006 to 2008 was primarily due to an increase in our trust funds as well as a continuing increase in the volume of our trust transactions.

Bank card commission and fee income increased 131.7% to RMB920 million in 2008 compared to RMB397 million in 2007, which in turn increased by 164.7% compared to RMB150 million in 2006. This increase in bank card commission and fee income from 2006 to 2008 was primarily due to our expansion of our credit card business and an increase in issuance of credit cards and increased transaction volume. As of December 31, 2008, the total number of credit cards issued increased by approximately 94% to 6.49 million from 3.34 million as of December 31, 2007, with the transaction volume increasing 159.6% to RMB74.5 billion.

Settlement service fees increased slightly by 3.7% to RMB312 million in 2008 compared to RMB301 million in 2007, which in turn increased by 16.7% compared to RMB258 million in 2006. This increase in settlement service fees from 2006 to 2008 was primarily due to an increase in volume of transactions from a growth in customers and increased demand for settlement services.

Securities underwriting service fees increased by 69.5% to RMB139 million in 2008 compared to RMB82 million in 2007, which in turn increased by 60.8% compared to RMB51 million in 2006. This increase in securities underwriting service fees from 2006 to 2008 was primarily due to an increase in short term financing bill services.

Other fee and commission income increased by 260.0% to RMB162 million in 2008 compared to RMB45 million in 2007, which in turn increased by 15.4% compared to RMB39 million in 2006. This increase in other fee and commission income from 2006 to 2008 was primarily due to increases in our collection agency business, and from over-the-counter and internet and phone banking services.

Our fee and commission expenses increased by 7.3% to RMB294 million in 2008 compared to RMB274 million in 2007, which in turn increased by 39.1% compared to RMB197 million in 2006, primarily due to greater expenditures related to our increased fee and commission income and operating activities. The smaller increase in fee and commission expenses as compared to the increase in fee and commission income is due to economies of scale and fee increases for our consulting and financial advisory services, trust and other fiduciary services, credit commitments and bank cards.

Net Trading Income

The following table sets forth, for the years indicated, the principal components of our net trading income.

	For the year ended December 31,		
	2006	2007	2008
	(in millions of RMB)		
Net trading income			
Foreign exchange gain/(loss)	134	405	(111)
Gain/(loss) on interest rate instrument	69	17	427
Gain/(loss) on precious metal and other products	(1)	3	(131)
Total net trading income	**202**	**425**	**185**

In 2008, our total net trading income was RMB185 million mainly reflecting a net gain on interest rate instruments partially offset by losses from write-downs under the precious metal and other products category and trading of foreign exchange instruments. The net loss on precious metal and other products primarily reflected a decrease in the fair value of our equity investment in UCBH of RMB323 million as compared with our contracted purchase price mainly due to a decrease in UCBH's share price, which negated our gain on precious metal trading of RMB194 million. The contracted purchase price for our investment in UCBH was RMB887 million while its initial fair value was RMB564 million. See "Corporate History and Organizational Structure — Our Investment in Other Financial Institutions — UCBH Holdings, Inc." and "Financial Information — Recent Developments." The net foreign exchange loss in 2008 mainly related to changes in foreign exchange rates adversely affecting our positions in foreign currency instruments.

In 2007 and 2006, our total net trading income was RMB425 million and RMB202 million, respectively, both amounts primarily reflecting a net foreign exchange gain due to an increase in our volume of foreign exchange transactions.

Net Gain / (Loss) on Disposal of Available-for-sale Securities

The following table sets forth, for the years indicated, our net gain or loss on available-for-sale securities.

	For the year ended December 31,		
	2006	2007	2008
	(in millions of RMB)		
Net gain / (loss) on disposal of available-for-sale securities	**44**	**(124)**	**(53)**

In 2008, we incurred a net loss on disposal of available-for-sale securities of RMB53 million primarily due to sales of fixed income securities whose fair values were negatively impacted by the global financial crisis.

In 2007, we incurred a net loss on disposal of available-for-sale securities of RMB124 million primarily due to sales of fixed income securities whose fair values were negatively impacted by the financial turmoil caused by subprime loans in the US.

In 2006, we had a net gain on disposal of available-for-sale securities of RMB44 million primarily due to fixed income portfolio optimizations that year.

Impairment Losses on Assets

Impairment losses on assets consist primarily of provisions on loans, investments and other assets. Provisions charged for impairment losses increased significantly by 187.8% to RMB6,518 million in 2008 compared to RMB2,265 million in 2007, which in turn increased slightly by 2.3% compared to RMB2,214 million in 2006.

The following table sets forth, for the years indicated, the principal components of our provisions for impairment losses on assets.

	For the year ended December 31,		
	2006	2007	2008
	(In millions of RMB)		
Loans and advances to customers	2,158	2,236	5,686
Available-for-sale	—	—	599
Held-to-maturity	—	—	54
Finance lease receivables	—	—	57
Others[(1)]	56	29	122
Total	**2,214**	**2,265**	**6,518**

Note:

(1) Others mainly consist of impairment losses on repossessed assets obtained through foreclosure.

Impairment losses related only to impairment losses on loans and other assets in 2006 and 2007; however, in 2008 such impairment losses included impairment losses on available-for-sale and held-to-maturity investment securities. Impairment losses on loans and advances to customers increased by 154.3% to RMB5,686 million in 2008 compared to RMB2,236 million in 2007, which in turn increased by 3.6% compared to RMB2,158 million in 2006. For details on changes in our allowance for impairment losses on loans, see "Description of Our Assets and Liabilities — Asset Quality of Our Loan Portfolio — Changes to the Allowance for Impairment Losses"

For the year ended December 31, 2008, our provisions for impairment losses on available-for-sale investment securities was RMB599 million (including a provision of RMB50 million against our exposure to subprime mortgage securities as of December 31, 2008, which was not material) and held-to-maturity investment securities was RMB54 million, both provisions primarily related to fair-market value decreases in securities held in foreign denominated currencies due to the global financial crisis. Provisions for finance lease receivable were RMB57 million in 2008 mainly reflecting provisions of our subsidiary, Minsheng Financial Leasing Co, Ltd., that was newly established during the year. Other provisions increased to RMB122 million in 2008 reflecting both a greater repossession of foreclosed assets and an increase in provisions to reflect the economic downturn.

Operating Expenses

The following table sets forth, for the years indicated, the principal components of our total operating expenses.

	For the year ended December 31,		
	2006	2007	2008
	(in millions of RMB)		
Staff cost	3,671	6,175	7,950
Business tax and surcharges	1,391	2,047	2,916
Business development expenses	696	927	1,295
Office and lease expenses	1,163	1,360	1,728
Other general and administrative expenses(1)	2,796	3,243	3,928
Total operating expenses	**9,717**	**13,752**	**17,817**

Note:

(1) Consist primarily of depreciation, automobile, electronic equipment, travelling, conference, postage and telegraph, and other general and administrative expenses.

Our operating expenses increased by 29.6% to RMB17,817 million in 2008 compared to RMB13,752 million in 2007, which in turn increased by 41.5% compared to RMB9,717 million in 2006. This resulted from an increase in all categories of operating expenses. Our operating expense to total operating income ratio (excluding other operating expenses, net) was 55.7%, 54.4% and 50.9% in 2006, 2007 and 2008, respectively.

Staff Costs

Staff costs are the largest component of our operating expenses, representing 44.6%, 44.9% and 37.8% of our total operating expenses for the years ended December 31, 2008, 2007 and 2006, respectively.

The following table sets forth, for the years indicated, the components of our staff costs.

	For the year ended December 31,		
	2006	2007	2008
	(in millions of RMB)		
Staff cost			
Salaries and bonuses	2,447	4,118	5,707
Other benefits(1)	1,224	2,057	2,243
Total staff cost	3,671	6,175	7,950

Note:

(1) Consist primarily of statutory social security and additional health and pension benefits.

Staff costs increased by 28.7% to RMB8.0 billion in 2008 compared to RMB6.2 billion in 2007, which in turn increased by 68.2% compared to RMB3.7 billion in 2006. Our salaries and bonuses increased by 38.6% to RMB5.7 billion in 2008 compared to RMB4.1 billion in 2007, which in turn increased by 68.3% from RMB2.4 billion in 2006. Other benefits increased by 9.0% to RMB2.2 billion in 2008 compared to RMB2.1 billion in 2007, which in turn increased by 68.1% compared to RMB1.2 billion in 2006. These increases from 2006 to 2008 were primarily due to a combination of an increase in the number of our employees in line with the expansion of our branch network and overall business growth as well as bonus plans to improve our competitiveness in retaining talent.

Business Tax and Surcharges

Business tax and surcharges mainly relate to revenue generated from our provision of financial products and services with respect to lending (interest income), financial leasing, transfer of securities, financial advisory services, and other financial services. Business tax and surcharges increased by 42.5% to RMB2.9 billion in 2008 compared to RMB2.0 billion in 2007, which in turn increased by 47.2% compared to RMB1.4 billion in 2006. The increase in business tax and surcharges from 2006 to 2008 was due to an increase in our revenues subject to these taxes.

Business Development Expenses

Business development expenses increased by 39.7% to RMB1.3 billion in 2008 compared to RMB0.9 billion in 2007, which in turn increased by 33.2% compared to RMB0.7 billion in 2006. The increase in business development expenses from 2006 to 2008 was due to our overall business growth.

Office and Lease Expenses

Office and lease expenses increased by 27.1% to RMB1.7 billion in 2008 compared to RMB1.4 billion in 2007, which in turn increased by 16.9% compared to RMB1.2 billion in 2006. The increase in office and lease expenses from 2006 to 2008 was primarily due to the increase in the number of our branches, including expenses relating to operating those branches, to meet the needs of our business growth and an increase in our rent.

Other General and Administrative Expenses

Other general and administrative expenses increased by 21.1% to RMB3.9 billion in 2008 compared to RMB3.2 billion in 2007, which in turn increased by 16.0% compared to RMB2.8 billion in 2006, reflecting our overall business growth. As a percentage of total operating expenses, other general and administrative expenses decreased to 22.0% in 2008 compared to 23.6% in 2007, which in turn decreased from 28.8% in 2006, primarily reflecting our efforts to control costs.

Other Operating Expenses, net

Other net operating expenses mainly include other operating income such as tax rebates and other operating expenses such as provision charges for credit commitments, including acceptances, letters of guarantee, and letters of credit. Other net operating expenses was RMB150 million in 2008, RMB43 million in 2007 and RMB273 million in 2006. Other net operating expenses increased 248.8% to RMB150 million in 2008 from RMB43 million in 2007 mainly due to the general economic downturn leading and our more conservative approach in assessing provisions. Other net operating expenses decreased by 84.2% to RMB43 million in 2007 from RMB273 million in 2006 primarily due to offsets to our provisions from tax rebates we received during 2007.

Profit Before Tax

As a result of the foregoing, our profit before tax increased by 13.9% to RMB10.5 billion for the year ended December 31, 2008 compared to RMB9.2 billion for the year ended December 31, 2007, which in turn increased by 75.9% compared to RMB5.2 billion for the year ended December 31, 2006.

Income Tax

The following table sets forth our profit before tax, income tax expense and effective tax rate for the years ended December 31, 2006, 2007 and 2008.

	For the year ended December 31,		
	2006	2007	2008
	(in millions of RMB, except percentages)		
Profit before tax	5,237	9,212	10,488
Income tax	1,479	2,877	2,595
Effective tax rate	**28.2%**	**31.2%**	**24.7%**

The decrease in our effective tax rate to 24.7% in 2008 as compared to 31.2% in 2007 reflects the impact of the new Enterprise Income Tax Law effective January 1, 2008 reducing our tax rate from 33% to 25%. The increase in our effective tax rate to 31.2% in 2007 as compared to 28.2% in 2006 primarily reflects an adjustment to deferred tax assets and liabilities in anticipation of the new Enterprise Income Tax Law partially offset by a increase in exempt interest income on government bonds.

Net Profit

As a result of the foregoing factors, our net profit increased by 24.6% to RMB7.9 billion in 2008 compared to RMB6.3 billion in 2007, which in turn increased by 68.6% compared to RMB3.8 billion in 2006.

SUMMARY SEGMENT OPERATING RESULTS

Operating segments are reported in a manner consistent with the internal reporting provided to our presidents and special management committees that make strategic decisions for our Bank. We report by geographical segment, though we also report key financial figures such as interest income, and net fee and commission income by business segment. Geographically, we break out our business into four main areas within the PRC:

- *Northern China* — including Minsheng Financial Leasing Co. Ltd, our headquarters in Beijing as well as the following branches: Beijing, Taiyuan, Shijazhuang and Tianjin;
- *Eastern China* — including Cixi Township Bank Co., Ltd. and the following branches: Shanghai, Hangzhou, Ningbo, Nanjing, Jinan, Suzhou, Wenzhou, Qingdao, Hefei and Nanchang;
- *Southern China* — including Minsheng Royal Fund Management Co., Ltd. and the following branches: Fuzhou, Guangzhou, Shenzhen, Quanzhou, Shantou and Xiamen;
- *Other locations* — including Pengzhou Township Bank Co., Ltd. and the following branches: Xi'an, Dalian, Chongqing, Chengdu, Kunming, Wuhan, Changsha, Zhengzhou, Changchun.

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. We derive our revenue primarily from three business segments: corporate banking, retail banking and treasury business.

Summary Geographical Segment Information

In presenting information on the basis of geographical segments, profit before income tax is allocated based on the location of the branch that generated the revenue. The following table sets forth, for the periods indicated, the profit before income tax attributable to each of these geographical regions.

	For the year ended December 31,						For the six months ended June 30,			
	2006		2007		2008		2008		2009	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
							(unaudited)			
	(in millions of RMB, except percentages)									
Northern China	1,341	25.6%	2,955	32.1%	451	4.3%	2,208	27.0%	6,473	67.5%
Eastern China	1,853	35.4%	2,867	31.1%	5,128	48.9%	2,851	35.0%	1,469	15.4%
Southern China	1,155	22.0%	1,962	21.3%	2,899	27.6%	2,110	25.9%	808	8.4%
Others	888	17.0%	1,428	15.5%	2,010	19.2%	987	12.1%	836	8.7%
Profit before income tax	**5,237**	**100%**	**9,212**	**100%**	**10,488**	**100%**	**8,156**	**100%**	**9,586**	**100%**

Six Months Ended June 30, 2009 Compared to Six Months Ended June 30, 2008

In Northern China, our profit before income tax increased by 193.2% to RMB6.5 billion for the six months ended June 30, 2009 compared to RMB2.2 billion for the same period in 2008. This increase was primarily due to the sale of all our shares in Haitong Securities over the first half of 2009, generating a gain of RMB4.9 billion. See "— Six Months Ended June 30, 2009 Compared to Six Months Ended June 30, 2008 — Net Gain/(loss) on Disposal of Available-for-sale Securities", and partially offset by lower fee and commission income and an increase impairment losses on assets reflecting more prudent policies on impairment losses in response to the economic downturn in the PRC.

In Eastern China, our profit before income tax decreased by 48.5% to RMB1.5 billion for the six months ended June 30, 2009 compared to RMB2.9 billion for the same period in 2008. This decrease was primarily due to lower net interest income as result of a lower interest rate environment and increase impairment losses on assets, partially offset by an increase in our loan balances. Loans in Eastern China increased from RMB236.4 billion as of December 31, 2008 to RMB291.5 billion as of June 30, 2009.

In Southern China, our profit before income tax decreased by 61.7% to RMB0.8 billion for the six months ended June 30, 2009 compared to RMB2.1 billion for the same period in 2008. This decrease was primarily attributable to lower net interest income as a result of a lower interest rate environment as well as tighter lending policies in the region.

In Other locations, profit before income tax decreased by 15.3% to RMB0.8 billion for the six months ended June 30, 2009 compared to RMB1.0 billion for the same period in 2008. The decrease was mainly due to higher operating expenses related to our business expansion as we opened more branches, partially offset by an increase in net interest income due to an increase in our loan balance.

2008 Compared to 2007 and 2006

In Northern China, the profit before income tax decreased 84.7% to RMB0.5 billion in 2008 from RMB3.0 billion in 2007 primarily as a result of an increase in impairment charges on credit losses relating to loans to customers. Impairment losses on assets in Northern China increased to RMB5.1 billion in 2008 from RMB4.0 billion in 2007 mainly reflecting more prudent policies on impairment losses in response to the economic downturn in the PRC precipitated by the global financial crisis and the fact that historically, Northern China had the highest ratio of impaired loans. As of December 31, 2008, Northern China had the highest percentage of our impaired loans at 54.5%, as compared to 18.1% for Eastern China, 22.7% for Southern China, and 4.7% for Others.

Moreover, the impaired loan ratio in Northern China has historically been the highest (2.26% as of December 31, 2008) mainly because impaired loans in the region include those of our headquarters, particularly those impaired loans transferred to and handled by the Investment Banking SBU of our headquarters for recovery. Profit before income tax increased 120.4% to RMB3.0 billion in 2007 from RMB1.3 billion in 2006 primarily due to greater interest income and fee and commission income as we expanded our business.

In Eastern China, profit before income tax increased 78.9% to RMB5.1 billion in 2008 from RMB2.9 billion in 2007, which in turn increased by 54.7% from RMB1.9 billion in 2006. The increases from 2006 to 2008 mainly reflect an increase in total interest income for the region. Loans in Eastern China increased from RMB150.2 billion as of December 31, 2006 to RMB186.8 billion as of December 31, 2007 and further to RMB236.4 billion as of December 31, 2008, the greatest rate among all regions.

In Southern China, profit before tax increased by 47.8% to RMB2.9 billion in 2008 from RMB2.0 billion in 2007, which in turn increased by 69.9% from RMB1.2 billion in 2006. The increases from 2006 to 2008 mainly reflect an increase in total interest income for the region. Loans in Southern China increased from RMB81.5 billion as of December 31, 2006 to RMB92.2 billion as of December 31, 2007 and further to RMB95.4 billion as of December 31, 2008.

In Other locations, profit before tax increased by 40.8% to RMB2.0 billion in 2008 from RMB1.4 billion in 2007, which in turn increased by 60.8% from RMB0.9 billion in 2006. The increases from 2006 to 2008 mainly reflects an increase in total interest income due to greater loans. The smaller increase from 2007 to 2008 than from 2006 to 2007 reflected an increase in impairment losses on loans as a result of the greater number of impaired loans due to the economic downturn in the PRC precipitated by the global financial crisis.

Summary Business Segment Information

We derive our revenue primarily from three business segments: corporate banking, retail banking and treasury business. For a description of products and services included in these business activities, see "Business — Our Principal Business Activities."

The following table sets forth, for the periods indicated, our total operating income of our principal business segments.

	For the year ended December 31,						For the six months ended June 30,			
	2006		2007		2008		2008		2009	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
							(unaudited)			
	(in millions of RMB, except percentages)									
Corporate banking business	12,143	69.6%	18,509	73.3%	26,410	75.5%	12,464	70.7%	11,496	54.1%
Retail banking business	2,415	13.9%	4,024	15.9%	6,183	17.7%	2,927	16.6%	2,142	10.1%
Treasury business	2,725	15.6%	2,351	9.3%	2,195	6.3%	2,021	11.4%	2,277	10.7%
Unallocated(1)	158	0.9%	388	1.5%	185	0.5%	228	1.3%	5,315(2)	25.1%
Total operating income	**17,441**	**100%**	**25,272**	**100%**	**34,973**	**100%**	**17,640**	**100%**	**21,230**	**100%**

Notes:

(1) Includes businesses such as financial leasing, investment fund management and income that is not directly attributable to a segment or cannot be allocated on a reasonable basis.

(2) Amount primarily relates to our disposal of interest in Haitong Securities, see "— Six Months Ended June 30, 2009 Compared to Six Months Ended June 30, 2008 — Net gain/(loss) on Disposal of Available-for-sale Securities".

LIQUIDITY

Liquidity risk is the risk that we are unable to provide funds for maturing liabilities through asset realization at reasonable prices on a timely basis. Our Assets and Liabilities Management Commission is responsible for making liquidity and risk management policies and our assets and liabilities department is responsible for implementing these policies. For a more detailed description of our liquidity risk management policies and procedures, see "Risk Management — Liquidity Risk Management."

We are exposed to daily calls on our available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivatives. We do not, nor are we required to, maintain cash resources to meet all these needs as experience shows that a portion of maturing deposits will continue to remain in the Bank. We set limits on the minimum proportion of maturing funds available to meet such calls and the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand. Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amounts under other credit commitments because we do not generally expect the potential recipient to draw funds under those agreements. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

The following table sets forth, as of June 30, 2009, the remaining maturities of our assets and liabilities.

	As of June 30, 3009							
	Repayable on Demand	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Overdue	Total
	(in millions of RMB)							
Financial Liabilities:								
Deposits from customers	539,220	66,313	173,610	209,377	86,409	380	—	1,075,309
Due to and placements from banks and other financial institutions	33,935	93,891	39,536	26,208	27,520	—	—	221,090
Borrowing from other financial institutions	—	213	237	6,842	1,108	—	—	8,400
Debt securities in issue	—	—	—	5,999	5,996	16,882	—	28,877
Other financial liabilities	—	9,083	164	1,646	351	544	—	11,788
Total liabilities	**573,155**	**169,500**	**213,547**	**250,072**	**121,384**	**17,806**	**—**	**1,345,464**
Financial Assets:								
Cash and due from banks and other financial institutions	12,739	7,174	2,983	1,184	—	—	—	24,080
Balances with central banks	134,641	—	—	—	—	—	—	134,641
Placements with banks and other financial institutions	—	149,802	17,958	6,835	—	—	—	174,595
Loans and advances to customers	—	45,326	119,302	339,427	242,532	138,078	6,013	890,678
Investment securities								
-available-for-sale securities	—	1,187	2,560	8,702	35,615	16,978	—	65,042
-held-to-maturity	—	1,160	1,380	6,466	29,790	7,698	—	46,494
-loans and receivables	—	237	3,544	4,341	23,184	7,210	—	38,516
Finance lease receivables	—	256	372	1,877	6,229	835	321	9,890
Other financial assets	243	5,304	799	2,237	5,405	1,309	19	15,316
Total assets	**147,623**	**210,446**	**148,898**	**371,069**	**342,755**	**172,108**	**6,353**	**1,399,252**
Liquidity gap	(425,532)	40,946	(64,649)	120,997	221,371	154,302		
Cumulative liquidity gap	(425,532)	(384,586)	(449,235)	(328,238)	(106,867)	47,435		

CAPITAL RESOURCES

Shareholders' Equity

Our total shareholders' equity increased to RMB58.1 billion as of June 30, 2009 from RMB54.7 billion as of December 31, 2008, which in turn increased to RMB50.2 billion as of December 31, 2007, RMB19.3 billion as of December 31, 2006, and RMB15.5 billion as of December 31, 2005.

The following table sets forth, for the periods indicated, the components of the changes in our total equity.

	Shareholders' equity
	(in millions of RMB)
As of January 1, 2006	**15,467**
Comprehensive income	4,195
Cash dividend relating to 2005	(363)
Shares issued in connection with convertible bonds	14
Changes in equity component of convertible bonds	(2)
As of December 31, 2006	**19,311**
Comprehensive income	12,726
Issuance of stocks by private placement	18,150
As of December 31, 2007	**50,187**
Comprehensive income	4,409
Cash dividends relating to 2007	(724)
Capital injection from minority equity holders of subsidiaries	780
Others	20
As of December 31, 2008	**54,672**
Comprehensive income	4,886
Cash dividend relating to 2008	(1,506)
As of June 30, 2009	**58,052**

Profit Distribution

We made the following profit distributions to our shareholders for the years ended December 31, 2006, 2007 and 2008:

- In 2009, we paid a cash dividend in the aggregate amount of RMB1,506 million, representing RMB0.08 per share (before tax), in respect of profits for the year ended December 31, 2008.
- In 2008, we paid a cash dividend in the aggregate amount of RMB724 million (RMB0.05 per share) (before tax) and stock dividend of RMB2,896 million (two shares for every ten shares held), in respect of profits for the year ended December 31, 2007.
- We did not make a distribution from 2006 profits as a dividend to shareholders.

Capital Adequacy

We are subject to capital adequacy requirements as promulgated by the CBRC, which require commercial banks in China to maintain a minimum core capital adequacy ratio of 4% and a capital adequacy ratio of 8%. Our core capital, supplementary capital and risk-weighted assets are calculated in accordance with "The Rules on Capital Adequacy Ratios of Commercial Banks" and other related regulatory rules in the PRC, and are based on our financial statements prepared in accordance with PRC GAAP. In order to ensure that our capital adequacy ratio is in line with regulatory requirements and to maximize shareholder's return while controlling risks, we have additionally supplemented our capital through private placements and the issuance of long-term subordinated bonds and hybrid capital bonds.

The following table sets forth, at the dates indicated, certain information relating to our capital adequacy.

	As of December 31,			As of June 30,
	2006	2007	2008	2009
	(in millions of RMB, except percentages)			
Core capital				
Paid up ordinary share capital	10,167	14,479	18,823	18,823
Reserves	8,755	28,251	32,484	38,426
Total core capital	18,922	42,730	51,307	57,249
Deductions:				
50% of unconsolidated equity investment	(315)	(307)	(620)	(344)
Net Core Capital	18,607	42,423	50,687	56,905
Supplementary capital				
Investment revaluation reserve	195	3,728	1,305	310
General provisions	4,721	4,169	7,895	8,449
Hybrid capital bonds	4,300	4,300	4,300	9,270
Long term subordinated bonds	7,200	7,200	7,200	7,200
Total supplementary capital	16,416	19,397	20,700	25,229
Total Capital	35,338	62,127	72,007	82,478
Deductions:				
Unconsolidated equity investment	(630)	(614)	(1,240)	(689)
Net Capital	**34,708**	**61,513**	**70,767**	**81,789**
Risk-weighted assets[1]	**423,046**	**573,514**	**767,895**	**964,246**
Core capital adequacy ratio[2]	**4.40%**	**7.40%**	**6.60%**	**5.90%**
Capital adequacy ratio[3]	**8.20%**	**10.73%**	**9.22%**	**8.48%**

Notes:

(1) Includes subordinated and hybrid debt of other lenders held by the Company of RMB2,660 million, RMB3,910 million, RMB5,700 million and RMB6,350 million as of December 31, 2006, 2007, 2008 and June 30, 2009, respectively.

(2) Equals to net core capital divided by risk-weighted assets for the respective period.

(3) Equals to net capital divided by risk-weighted assets for the respective period.

Our core capital adequacy ratio increased to 7.40% as of December 31, 2007 from 4.40% as of December 31, 2006 primarily due to our issue of 2.38 billion shares through a private placement in 2007 thereby increasing our capital reserves by RMB15.8 billion. Our capital adequacy ratio increased to 10.73% as of December 31, 2007 from 8.20% as of December 31, 2006 primarily due to (i) the same reason as the increase in our core capital adequacy ratio and (ii) an increase in our total supplementary capital as a result of an increase in the fair-value of available-for-sale securities in 2007.

Our core capital adequacy ratio decreased to 6.60% as of December 31, 2008 from 7.40% as of December 31, 2007 as our risk-weighted assets increased at a greater rate than net core capital as we expanded our business and increased our loan balance. We did not shore up our capital reserves through additional issuance of shares in 2008. Our capital adequacy ratio decreased to 9.22% as of December 31, 2008 from 10.73% as of December 31, 2007 primarily due to the same reason as the decrease in our core capital ratio.

Our core capital ratio decreased to 5.90% as of June 30, 2009 from 6.60% as of December 31, 2008 as our risk-weighted assets increased at a greater rate than net core capital as we further expanded our business and increased our loan balance. We did not shore up our capital reserves through additional issuance of shares in the first half of 2009. Our capital adequacy ratio decreased to 8.48% as of June 30, 2009 from 9.22% as of December 31, 2008 primarily due the same reason as the decrease in our core capital ratio partially offset by an increase in total supplementary capital as a result of issuance of hybrid capital bonds during the first half of 2009 thereby increasing our supplementary capital by approximately RMB5.0 billion.

OFF-BALANCE SHEET COMMITMENTS

Our off-balance sheet commitments consist primarily of acceptances and credit-related commitments. Acceptances include undertakings by us to pay bills of exchange drawn on customers, for which we expect such amounts to be settled simultaneously with the reimbursement from the customers. Credit-related commitments consist of instruments that ensure that funds are available to customers as required. Guarantees and letters of credit, which represent irrevocable assurances that the Bank will make payments in the event a customer cannot meet is obligations to third-parties, carry the same credit risk as loans. In some cases, such as those situations where the amount of credit commitment exceeds the original credit limit, guarantee deposits are received by the Bank to lessen the credit risk to the Bank. The Bank's potential amount of credit risk is equivalent to the total amount of credit commitments.

Commitments to extend credit, such as credit card commitments, represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. For commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The following table sets forth the contractual amounts of our off-balance sheet commitments at the dates indicated.

	As of December 31,			As of June 30,
	2006	2007	2008	2009
	(in millions of RMB)			
Credit commitments:				
Acceptances	70,853	96,624	145,005	306,435[5]
Letters of guarantee	22,881	32,770	49,029	45,697
Letters of credit	12,490	15,879	8,250	15,407
Unused Credit Card limits	9,635	26,574	28,140	27,873
Irrevocable Loan Commitments	3,345	4,856	6,000	5,828
Financing lease commitments	—	—	475	912
Subtotal	**119,204**	**176,703**	**236,899**	**402,152**
Capital commitments[1]	770	4,647	3,213	1,725
Operating lease commitments[2]	2,118	2,314	2,614	2,798
Securities underwriting[3]	10	1,971	2,900	3,300
Redemption obligations[4]	6,108	4,391	3,708	4,086
Total off-balance sheet commitments	**128,210**	**190,026**	**249,334**	**414,061**

Notes:

(1) Capital commitments mainly consist of commitments in respect of contracted equity investment and buildings and equipment purchases.

(2) Operating lease commitments represent future minimum lease payments on operating leases for buildings.

(3) Securities underwriting represent underwriting for short-term financing bills and government bonds.

(4) We are entrusted by the Ministry of Finance to underwrite certain certificate government bonds. Investors of such bonds have the option to redeem the bonds at par value any time prior to maturity, and we are committed to repurchase such bonds at the redemption price. The redemption price is the principal value of such bonds plus unpaid interest in accordance with the early redemption arrangement. The original maturities of these bonds vary from one to five years. As the deposit base rate established by the PBOC is currently lower than the yields on all such bonds, we expect the amount of redemption before the maturity dates of these bonds will not be material.

(5) Acceptances increased from RMB145.0 billion as of December 31, 2008 to RMB306.4 billion as of June 30, 2009 mainly due to an overall increase in market demand of corporate customers using bank acceptance bills as such customers needed short-term funding to increase their inventories and as acceptance bills provided for lower interest rates as compared to short-term loans. As of June 30, 2009, the annual interest rate for acceptance bills was 4.41% while the annual interest rate for short-term loans was 5.42%.

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following table sets forth the face value of off-balance sheet contractual obligations by remaining contract maturity classified into the categories specified below as of June 30, 2009.

	As of June 30, 2009			
	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
		(face value in millions of RMB)		
Off-balance sheet:				
Acceptances	306,435	—	—	306,435
Letters of guarantee	17,630	26,313	1,754	45,697
Unused credit card limits	27,873	—	—	27,873
Letters of credit	14,646	761	—	15,407
Irrevocable loan commitments	1,440	84	4,304	5,828
Capital commitments	217	1,396	112	1,725
Operating lease commitments	574	1,691	533	2,798
Financial lease commitments	912	—	—	912
Total	369,727	30,245	6,703	406,675

SELECTED UNAUDITED FINANCIAL INFORMATION AS OF AND FOR THE NINE MONTHS ENDED 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.

Condensed Results of Operations for the Nine Months Ended September 30, 2009 and 2008

The condensed, consolidated results of operations for the nine months ended September 30, 2009 and 2008 set forth below are derived from Appendix II to this prospectus. You should read the following information in conjunction with Appendix II to this prospectus. Our results of operations for the nine months ended September 30, 2009 may not be indicative of our results of operations for the full year ended December 31, 2009.

Net Interest Income

The following table sets forth, for the periods indicated, our interest income, interest expense and net interest income.

	For the nine months ended September 30, 2008	2009
	(unaudited) (In millions of RMB)	
Interest income	42,286	38,743
Interest expense	(19,480)	(16,053)
Net interest income	**22,806**	**22,690**

Our net interest income decreased slightly to RMB22.7 billion for the nine months ended September 30, 2009 compared to RMB22.8 billion for the nine months ended September 30, 2008.

The table below sets forth, for the periods indicated the average balances of our assets and liabilities and the related interest income or expense and average yields (for assets) and costs (for liabilities).

	For the nine months ended September 30, 2008			2009		
	Average balance[1]	Interest income	Average yield[2]	Average balance[1]	Interest income	Average yield[2]
	(unaudited) (In millions of RMB, except percentages)					
Assets						
Loans and advances to customers, gross	579,912	33,171	7.63%	783,754	31,001	5.27%
Investment securities and trading assets	145,651	4,366	4.00%	148,364	4,052	3.64%
Due from and placements with banks and other financial institutions[3]	95,282	2,962	4.14%	144,538	1,793	1.65%
Balances with central banks[4]	133,601	1,659	1.66%	129,193	1,383	1.43%
Others[5]	3,396	128	5.03%	10,654	514	6.43%
Total interest-earning assets	**957,842**	**42,286**	**5.89%**	**1,216,503**	**38,743**	**4.25%**
Allowance for impairment losses[6]	(8,711)			(13,869)		
Non-interest-earning assets[6][7]	21,365			22,993		
Total assets	**970,496**			**1,225,627**		

	For the nine months ended September 30,					
	2008			2009		
	Average balance[1]	Interest expense	Average cost[2]	Average balance[1]	Interest expense	Average cost[2]
	(unaudited) (In millions of RMB, except percentages)					
Liabilities						
Deposits from customers	698,748	13,977	2.67%	942,077	12,217	1.73%
Due to and placements from banks and other financial institutions[8]	135,853	4,450	4.37%	165,028	2,633	2.13%
Debt securities in issue[9]	33,487	1,042	4.15%	32,101	1,055	4.38%
Others[10]	545	11	2.69%	7,104	148	2.78%
Total interest-bearing liabilities	**868,633**	**19,480**	**2.99%**	**1,146,310**	**16,053**	**1.87%**
Non-interest-bearing liabilities[6][11]	15,098			17,775		
Total liabilities	**883,731**			**1,164,085**		
Net interest income		**22,806**			**22,690**	
Net interest spread[12]			**2.90%**			**2.38%**
Net interest margin[13]			**3.17%**			**2.49%**

Notes:

(1) Calculated as the average of the daily balances of the Bank and the average monthly balances of our subsidiaries.

(2) Calculated on an annualized basis.

(3) Consist primarily of deposits with banks and other financial institutions, placements with banks and other financial institution and assets purchased under resale agreements.

(4) Consist primarily of statutory deposit reserves and surplus deposit reserves.

(5) Consist primarily of finance lease receivables related to Minsheng Financial Leasing Co. Ltd.

(6) Calculated as the average of the beginning and ending balances for the period.

(7) Consist primarily of cash, derivative financial assets, property, plant and equipment, deferred income tax assets and other assets.

(8) Consist primarily of deposits from banks and other financial institutions, placements from banks and other financial institutions and assets sold under repurchase agreements.

(9) Consist of financial bonds, subordinated bonds and hybrid capital bonds.

(10) Consist primarily of borrowings from other financial institutions related to Minsheng Financial Leasing Co. Ltd.

(11) Consist of derivative financial liabilities, deferred income tax liabilities and other liabilities.

(12) Calculated as the difference between the average yield on total interest-earning assets and the average cost on total interest-bearing liabilities.

(13) Calculated by dividing net interest income by the average balance of total interest-earning assets.

The following table sets forth, for the periods indicated, the allocation of changes in our interest income and interest expense due to changes in volume and changes in rate. Changes in volume are measured by changes in the average balances and changes in rate are measured by changes in the average rates. Changes caused by both volume and rate have been allocated to changes in rate.

	For the nine months ended September 30, 2009 vs. 2008		
	Increase/(decrease) due to		
	Volume(1)	Rate(2)	Net increase/ (decrease)(3)
	(In millions of RMB)		
Assets			
Loans and advances to customers, gross	11,660	(13,830)	(2,170)
Investment securities and trading assets	81	(395)	(314)
Due from and placements with banks and other financial institutions	1,531	(2,700)	(1,169)
Balances with central banks	(55)	(221)	(276)
Others	274	112	386
Changes in interest income	**13,491**	**(17,034)**	**(3,543)**
Liabilities			
Deposits from customers	4,867	(6,627)	(1,760)
Due to and placements from banks and other financial institutions	956	(2,773)	(1,817)
Debt securities in issue	(43)	56	13
Others	132	5	137
Changes in interest expense	**5,912**	**(9,339)**	**(3,427)**
Changes in net interest income	**7,579**	**(7,695)**	**(116)**

Notes:

(1) Represents the average balance for the period minus the average balance for the previous period, multiplied by the average yield/cost for the previous period multiplied by 3/4.

(2) Represents the average yield/cost for the period minus the average yield/cost for the previous year multiplied by 3/4, multiplied by the average balance for the period.

(3) Represents interest income/expense for the period minus interest income/expense for the previous period.

Interest Income

Our interest income decreased by 8.4% to RMB38.7 billion for the nine months ended September 30, 2009 compared to RMB42.3 billion for the nine months ended September 30, 2008, due to a decrease in the average yield of interest-earning assets partially offset by an increase in the average balance. The average yield on interest-earning assets was 4.25% and 5.89% for the nine months ended September 30, 2009 and 2008, respectively.

Interest Income from Loans to Customers

The following table sets forth, for the years indicated, the average balance, interest income and average yield for each component of our loans to customers.

	For the nine months ended September 30,					
	2008			2009		
	Average balance(1)	Interest income	Average yield(2)	Average balance(1)	Interest income	Average yield(2)
	(unaudited) (In millions of RMB, except percentages)					
Corporate loans	452,043	25,467	7.51%	580,016	24,283	5.58%
Discounted bills	25,233	2,282	12.06%	84,222	2,017	3.19%
Retail loans	102,636	5,422	7.04%	119,516	4,701	5.24%
Total loans to customers	**579,912**	**33,171**	**7.63%**	**783,754**	**31,001**	**5.27%**

Notes:

(1) Calculated as the average of the daily balances of the Bank and the average monthly balances of our subsidiaries.

(2) Calculated on an annualized basis.

Interest income from loans to customers decreased approximately by 6.5% to RMB31.0 billion for the nine months ended September 30, 2009 compared to RMB33.2 billion over the same period in 2008, primarily due to a decrease in the average yield of interest-earning assets partially offset by an increase in the average balance. The average yield decreased to 5.27% in the nine months ended September 30, 2009 compared to 7.63% over the same period in 2008.

The largest component of our interest income from loans has been interest income from corporate loans, representing 78.3% and 76.8% of our total interest income from loans to customers for the nine months ended September 30, 2009 and 2008, respectively. Interest income from corporate loans decreased by 4.6% to RMB24.3 billion for the nine months ended September 30, 2009 compared to RMB25.5 billion over the same period in 2008, primarily due to a decrease in average yield to 5.58% for the nine months ended September 30, 2009 from 7.51% over the same period in 2008 partly offset by an increase in the average balance of 28.3% to RMB580.0 billion in the nine months ended September 30, 2009 from RMB452.0 billion over the same period in 2008. The increase in average corporate loans balance was mainly due to increased liquidity and monetary easing by the PBOC as well as increased demand for corporate loans related to an anticipated economic recovery in the PRC. The decrease in the average yield on corporate loans was primarily due to lower PBOC benchmark interest rates during the first nine months of 2009 as the PBOC decreased interest rates in late 2008.

Interest income from discounted bills decreased by 11.6% to RMB2.0 billion for the nine months ended September 30, 2009 compared to RMB2.3 billion over the same period in 2008, primarily due to a decrease in average yield partly offset by an increase in the average balance. The average yield of discounted bills decreased to 3.19% for the nine months ended September 30, 2009 compared to 12.06% over the same period in 2008, primarily reflecting a lower interest rate environment as a result of a decrease in the PBOC benchmark interest rates in late 2008. The average balance increased by 233.8% to RMB84.2 billion for the nine months ended September 30, 2009 as compared to RMB25.2 billion over the same period in 2008, primarily due to increased demand for discounted bills as a result of a lower market interest rate environment during the first nine months of 2009.

Interest income from retail loans decreased by 13.3% to RMB4.7 billion for the nine months ended September 30, 2009 compared to RMB5.4 billion over the same period in 2008, primarily due to a decrease in the average yield partially offset by an increase in the average balance. The average balance of retail loans increased by 16.4% to RMB119.5 billion in the nine months ended September 30, 2009 compared to RMB102.6 billion over the same period in 2008, primarily due to our continued expansion in retail loans business. The average yield decreased to 5.24% in the nine months ended September 30, 2009 from 7.04% over the same period in 2008, primarily due to (i) lower interest rate environment and (ii) a repricing of retail mortgages on January 1, 2009 to reflect the lower interest rate environment.

Interest Income from Investment Securities

Interest income from investments securities decreased by 7.2% to RMB4.1 billion for the nine months ended September 30, 2009 compared to RMB4.4 billion over the same period in 2008, primarily due to a decrease in the average yield, partially offset by an increase in the average balance. The average yield decreased to 3.64% for the nine months ended September 30, 2009 from 4.00% over the same period in 2008, primarily reflecting a lower interest rate environment during the first nine months of 2009 as compared to the same period in 2008. The average balance increased slightly by 1.9% to RMB148.4 billion for the nine months ended September 30, 2009 compared to RMB145.7 billion over the same period in 2008.

Interest Income from Due from and Placements with Banks and Other Financial Institutions

Interest income from Due from and placements with banks and other financial institutions decreased by 39.5% to RMB1.8 billion for the nine months ended September 30, 2009 compared to RMB3.0 billion over the same period in 2008, primarily due to a significant decrease in the average yield, partially offset by an increase in the average balance. The average yield decreased to 1.65% for the nine months ended September 30, 2009 from 4.14% over the same period in 2008, primarily reflecting a lower interest rate environment as a result of a decrease in PBOC benchmark interest rates in late 2008. The average balance increased by 51.7% to RMB144.5 billion for the nine months ended September 30, 2009 compared to RMB95.3 billion over the same period in 2008, primarily due to increased funding from customer deposits.

Interest Income from Balances with Central Banks

Interest income from balances with central banks decreased by 16.6% to RMB1.4 billion for the nine months ended September 30, 2009 compared to RMB1.7 billion over the same period in 2008, primarily due to a decrease in the average yield coupled with a decrease in the average balance. The average yield decreased to 1.43% for the nine months ended September 30, 2009 from 1.66% over the same period in 2008, primarily reflecting a lower interest rate environment as a result of a decrease in deposit reserve rates in late 2008. The average balance decreased by 3.3% to RMB129.2 billion for the nine months ended September 30, 2009 compared to RMB133.6 billion over the same period in 2008, primarily due to a lower required reserve ratio despite higher customer deposits. The ratio applied to our bank was decreased from 17.5% as of June 25, 2008 to 16.5% as of September 25, 2008 and further to 13.5% as of December 25, 2008.

Interest Expense

Interest expense decreased by 17.6% to RMB16.1 billion for the nine months ended September 30, 2009 compared to RMB19.5 billion over the same period in 2008, primarily due to a decrease in the average cost of interest-bearing liabilities partially offset by an increase in the average balance of interest-bearing liabilities, in particular with respect to deposits from customers. The average cost of our interest-bearing liabilities was 1.87% and 2.99% for the nine months ended September 30, 2009 and 2008, respectively.

Interest Expense on Deposits from Customers

Deposits from customers have been our primary source of funding. Interest expense on deposits from customers represented 76.1% and 71.8% of our total interest expense for the nine months ended September 30, 2009 and 2008, respectively.

Interest expense on deposits from customers decreased by 12.6% to RMB12.2 billion for the nine months ended September 30, 2009 compared to RMB14.0 billion over the same period in 2008, primarily due to a decrease in the average cost to 1.73% from 2.67%, partially offset by an increase of 34.8% in the average balance.

The following table sets forth, for the years indicated, the average balance, interest expense and average cost for corporate and retail deposits by product type.

	For the nine months ended September 30,					
	2008			2009		
	Average balance[1]	Interest expense	Average cost[2]	Average balance[1]	Interest expense	Average cost[2]
	(unaudited) (In millions of RMB, except percentages)					
Corporate deposits[3]						
Demand	264,172	1,996	1.01%	336,621	1,668	0.66%
Time	323,088	10,025	4.14%	446,676	8,299	2.48%
Subtotal	587,260	12,021	2.73%	783,297	9,967	1.70%
Retail deposits						
Demand	30,622	169	0.74%	35,889	95	0.35%
Time	80,866	1,787	2.95%	122,891	2,155	2.34%
Subtotal	111,488	1,956	2.34%	158,780	2,250	1.89%
Total deposits from customers	**698,748**	**13,977**	**2.67%**	**942,077**	**12,217**	**1.73%**

Notes:

(1) Calculated as the average of the daily balances of the Bank and the average monthly balances of our subsidiaries.

(2) Calculated on an annualized basis.

(3) Consist of deposits from corporate customers, government authorities and other organizations.

The largest component of our interest expense on deposits from customers has been interest expense on corporate deposits, representing 81.6% and 86.0% of our total interest expense on deposits from customers for the nine months ended September 30, 2009 and 2008, respectively.

Interest expense on corporate deposits decreased by 17.1% to RMB10.0 billion for the nine months ended September 30, 2009 compared to RMB12.0 billion over the same period in 2008, primarily due to a decrease in the average cost to 1.70% in the nine months ended September 30, 2009 from 2.73% over the same period in 2008, partially offset by an increase in the average balance.

Interest expense on corporate time deposits decreased by 17.2%, primarily due to a decrease in the average cost partially offset by an increase in the average balance. The average cost on corporate time deposits decreased to 2.48% for the nine months ended September 30, 2009 compared to 4.14% over the same period in 2008 primarily due to lower PBOC benchmark interest rates during the first nine months of 2009. The average balance of our corporate time deposits increased by 38.3% to RMB446.7 billion for the nine months ended September 30, 2009 compared to RMB323.1 billion over the same period in 2008 primarily due to increased liquidity from monetary easing by the PBOC and a generally more conservative investment environment due to the economic slow down in the PRC. As a percentage of the average balance of our total corporate deposits, the average balance of corporate time deposits increased to 57.0% for the nine months ended September 30, 2009 compared to 55.0% over the same period in 2008, primarily reflecting increased demand for time deposits due to a more conservative investment environment and its relative higher interest rates than demand deposits.

Interest expense on corporate demand deposits decreased by 16.4%, primarily due to a decrease in the average cost to 0.66% for the nine months ended September 30, 2009 compared to 1.01% over the same period in 2008 partially offset by an increase in the average balance. The average balance of corporate demand deposits increased by 27.4% to RMB336.6 billion for the nine months ended September 30, 2009 compared to RMB264.2 billion over the same period in 2008 primarily due to a more conservative investment environment.

Interest expense on retail deposits increased by 15.0% to RMB2.3 billion for the nine months ended September 30, 2009 compared to RMB2.0 billion over the same period in 2008, primarily due to an increase in the average balance partially offset by a decrease in the average cost. The average balance of retail deposits increased by 42.4% to RMB158.8 billion for the nine months ended September 30, 2009 compared to RMB111.5 billion over the same period in 2008. The average cost decreased to 1.89% for the nine months ended September 30, 2009 compared to 2.34% over the same period in 2008. Interest expense on retail time deposits increased by 20.6% to RMB2.2 billion for the nine months ended September 30, 2009 as compared to RMB1.8 billion over the same period in 2008, primarily due to an increase in the average balance of 52.0% to RMB122.9 billion in the nine months ended September 30, 2009 from RMB80.9 billion over the same period in 2008. This was partially offset by a decrease in the average cost to 2.34% for the nine months ended September 30, 2009 compared to 2.95% over the same period in 2008, primarily reflecting a lower interest rate environment in the first nine months of 2009. The increases in the average balances of our retail time and demand deposits were primarily attributable to a generally more conservative investment environment in the first nine months of 2009. As a percentage of our total retail deposits, our average balance of retail time deposits increased to 77.4% for the nine months ended September 30, 2009 compared to 72.5% over the same period in 2008, reflecting an increased demand for time deposits due to a more conservative investment environment and its relative higher interest rates than demand deposits.

Interest Expense on Due to and Placements from Banks and Other Financial Institutions

Due to and placements from banks and other financial institutions consist primarily of short term borrowings from banks at higher interest rates and long term borrowings from non-bank financial institution at lower interest rates.

Interest expense on due to and placements from banks and other financial institutions decreased by 40.8% to RMB2.6 billion for the nine months ended September 30, 2009 compared to RMB4.5 billion over the same period in 2008, primarily due to a decrease in the average cost partially offset by an increase to the average balance. The average cost decreased to 2.13% for the nine months ended September 30, 2009 compared to 4.37% over the same period in 2008 primarily due to a lower interest rate environment as a result of a decrease in PBOC benchmark interest rates in late 2008. The average balance increased by 21.5% to RMB165.0 billion for the nine months ended September 30, 2009 compared to RMB135.9 billion over the same period in 2008, primarily reflecting the decrease in the average balance of interbank borrowings from June 2008 to September 2008 and increased borrowings from the improved economic situation since the second half of 2009.

Interest Expense on Debt Securities in Issue

Interest expense on our total debt securities in issue increased slightly by 1.2% to RMB1,055 million for the nine months ended September 30, 2009 compared to RMB1,042 million over the same period in 2008, primarily due to an increase in the average cost partially offset by a decrease in the average balance. The average balance of debt securities in issue decreased by 4.1% to RMB32.1 billion for the nine months ended September 30, 2009 from RMB33.5 billion over the same period in 2008 while average cost increased slightly to 4.38% for the nine months ended September 30, 2009 as compared to 4.15% over the same period in 2008. The increase in average cost was primarily due to the issuance of RMB5 billion hybrid capital bonds with a higher average cost in March 2009.

Net Interest Spread and Net Interest Margin

Our net interest spread (on an annualized basis) decreased to 2.38% for the nine months ended September 30, 2009 compared to 2.90% over the same period in 2008. The decrease in net interest spread reflected a greater decrease in the average yield than the decrease in the average cost over the period.

Our net interest income decreased by 0.5% to RMB22.7 billion for the nine months ended September 30, 2009 compared to RMB22.8 billion over the same period in 2008. Our net interest income decreased while the average balance of our interest-earning assets for the nine months ended September 30, 2009 compared to the same period in 2008 increased. As a result, our net interest margin (on an annualized basis) decreased to 2.49% for the nine months ended September 30, 2009 compared to 3.17% over the same period in 2008.

Net Fee and Commission Income

Net fee and commission income represented 11.3% and 15.7% of our total operating income for the nine months ended September 30, 2009 and 2008, respectively. The following table sets forth, for the years indicated, the principal components of our net fee and commission income.

	For the nine months ended September 30,	
	2008	2009
	(unaudited) (In millions of RMB)	
Fee and commission income		
Consulting and financial advisory service fees[(1)]	2,129	1,223
Credit commitment fees[(2)]	585	655
Trust and other fiduciary service fees[(3)]	530	432
Bank card commission and fee income[(4)]	662	872
Settlement service fees[(5)]	306	289
Securities underwriting service fees[(6)]	88	94
Others[(7)]	195	220
Subtotal	4,495	3,785
Fee and commission expenses	(213)	(233)
Net fee and commission income	**4,282**	**3,552**

Notes:

(1) Primarily consist of service fees such as those from formulating overall financing plans, structuring financing solutions and arranging credit for our customers.

(2) Primarily consist of fees from providing bank acceptance bills, guarantees, letters of credit, credit guarantees and commitments.

(3) Primarily consist of fees from entrusted financial management, asset trusts, pension trusts, entrusted loans and third party depositories.

(4) Primarily consist of fees from interbank clearing, installment loans, cash withdrawals, transfers and annual fees.

(5) Primarily consist of fees from international settlements, domestic settlements and online banking settlements.

(6) Primarily consist of fees from underwriting and distributing financing bonds, government bonds and corporate bonds.

(7) Primarily consist of fees from online services, safe deposit boxes, deposit verification and airline ticketing agency services.

Our net fee and commission income decreased by 17.0% to RMB3.6 billion for the nine months ended September 30, 2009 compared to RMB4.3 billion over the same period in 2008. This decrease was primarily due to a decrease in consulting and financial advisory service fees.

Consulting and financial advisory service fees decreased by 42.6% to RMB1,223 million for the nine months ended September 30, 2009 compared to RMB2,129 million over the same period in

2008. The decrease in consulting and financial advisory service fees was mainly due to lower demand for loan arrangement services as the PBOC lowered benchmark interest rates and increased liquidity in the market since late 2008.

Credit commitment fees increased by 12.0% to RMB655 million for the nine months ended September 30, 2009 compared to RMB585 million over the same period in 2008. The increase in credit commitment fees was primarily due to increased customers and increased demand for credit commitment services as we issued more letters of credit and bank acceptance bills.

Trust and other fiduciary service fees decreased by 18.5% to RMB432 million for the nine months ended September 30, 2009 compared to RMB530 million over the same period in 2008. The decrease in trust and other fiduciary service fees for the nine months ended September 30, 2009 compared to for the nine months ended September 30, 2008 was primarily due to increased competition for trust services and decreased margins as a result of the lower interest rate environment.

Bank card commission and fee income increased by 31.7% to RMB872 million for the nine months ended September 30, 2009 compared to RMB662 million over the same period in 2008. The increase in bank card commission and fee income was primarily due to the expansion of our credit card business and an increase in issuance of credit cards and increased transaction volume. As of September 30, 2009, the total number of credit cards issued increased by 15.4% to 7.20 million from 6.24 million as of September 30, 2008, with the transaction volume increasing 42.7% to RMB73.9 billion.

Settlement service fees decreased by 5.6% to RMB289 million for the nine months ended September 30, 2009 compared to RMB306 million over the same period in 2008. The decrease in settlement service fees for the nine months ended September 30, 2009 compared to over the same period in 2008 was primarily due to decreased demand for international settlement services.

Securities underwriting service fees increased by 6.8% to RMB94 million for the nine months ended September 30, 2009 compared to RMB88 million over the same period in 2008. The increase in securities underwriting service fees was primarily due to our continued active expansion of the securities underwriting business.

Other fee and commission income increased by 12.8% to RMB220 million for the nine months ended September 30, 2009 compared to RMB195 million over the same period in September 30, 2008.

Our fee and commission expenses increased by 9.4% to RMB233 million for the nine months ended September 30, 2009 compared to RMB213 million over the same period in 2008, primarily due to our continued expansion of fee and commercial business. Fee and commission expenses as a percentage of fee and commission income increased to 6.2% in the nine months ended September 30, 2009 as compared to 4.7% in the same period in 2008.

Net Trading Income

The following table sets forth, for the periods indicated, the principal components of our net trading income.

	For the nine months ended September 30,	
	2008	2009
	(unaudited) (In millions of RMB)	
Net trading income		
Foreign exchange gain	14	211
Gain/(loss) on interest rate instruments	306	(62)
Loss on precious metal and other products	(231)	(65)
Total net trading income/(loss)	89	84

In the nine months ended September 30, 2009, our total net trading income was RMB84 million mainly reflecting a net gain on foreign exchange instruments partially offset by losses on interest rate instruments, and precious metals and other products. The net foreign exchange gain of RMB211 million for the nine months ended September 30, 2009 mainly related to an increased foreign exchange transaction volume from our customers and increased trading activity. The net loss on interest rate instruments of RMB62 million primarily reflected realized losses on trading of such instruments as well as fair value adjustments. The net loss on precious metal and other products of RMB65 million was primarily due to realized trading losses on precious metals over the first nine months of 2009.

In the nine months ended September 30, 2008, our total net trading gain was RMB89 million mainly reflecting a gain on interest rate instruments, partially offset by a loss on precious metals and other products. The net gain on interest rate instruments of RMB306 million was primarily due to realized trading gains coupled with beneficial fair value adjustments. The loss on precious metals and other products of RMB231 million mainly reflected a decrease in fair value of our equity investment in UCBH, as compared with our contracted purchase price. See "Corporate History and Organizational Structure — Our Investment in Other Financial Institutions — UCBH Holdings, Inc." and "Financial Information — Recent Developments."

Net Gain /(Loss) on Disposal of Available-for-sale Securities

The following table sets forth, for the years indicated, our net gain or loss on available-for-sale securities.

	For the nine months ended September 30,	
	2008	2009
	(unaudited) (In millions of RMB)	
Net gain /(loss) on disposal of available-for-sale securities	47	5,003

For the nine months ended September 30, 2009, we had a net gain on disposal of available-for-sale securities of RMB5.0 billion as compared to RMB47 million for the same period in 2008. This increase was mainly attributable to the disposal of all our interests in Haitong Securities in June 2009, generating a gain of RMB4.9 billion. See "— Six Months Ended June 30, 2009 Compared to Six Months Ended June 30, 2008 — Net Gain/(Loss) on Disposal of Available-for-sale Securities".

Impairment Losses on Assets

Impairment losses on assets consist primarily of provisions charged on loans, investments and other assets. Provisions charged for impairment losses increased by 11.7% to RMB3,383 million for the nine months ended September 30, 2009 compared to RMB3,028 million for the same period in 2008.

The following table sets forth, for the years indicated, the principal components of our provisions charged for impairment losses on assets.

	For the nine months ended September 30,	
	2008	2009
	(unaudited) (In millions of RMB)	
Loans and advances to customers	2,535	2,893
Available-for-sale	435	461
Held-to-maturity	—	(54)
Finance lease receivables	57	116
Others[(1)]	1	(33)
Total	**3,028**	**3,383**

Note:

(1) Others mainly consists of impairment losses on repossessed assets obtained through foreclosure.

Provisions charged for impairment losses on loans and advances to customers increased by 14.1% to RMB2,893 million for the nine months ended September 30, 2009 compared to RMB2,535 million for the same period in 2008. For details on changes in our allowance for impairment losses on loans, see "Description of Our Assets and Liabilities — Asset Quality of Our Loan Portfolio — Changes to the Allowance for Impairment Losses."

For the nine months ended September 30, 2009, our provisions charged for impairment losses on available-for-sale investment securities was RMB461 million (including a provision of RMB12 million against our exposure to subprime mortgage securities as of September 30, 2009, which was not material), primarily due to decrease in fair-market value of securities held in foreign denominated currencies. For the nine months ended September 30, 2009, we reversed provisions for held-to-maturity investment securities of RMB54 million as the securities that this provision related to matured and we received full payment. Provisions for finance lease receivables were RMB116 million for the nine months ended September 30, 2009 mainly reflecting provisions relating to the business expansion of our subsidiary, Minsheng Financial Leasing Co, Ltd.

Operating Expenses

The following table sets forth, for the years indicated, the principal components of our total operating expenses.

	For the nine months ended September 30,	
	2008	2009
	(unaudited) (In millions of RMB)	
Staff cost	5,847	6,763
Business tax and surcharges	2,170	2,023
Business development expenses	761	979
Office and lease expenses	1,082	1,562
Other general and administrative expenses[1]	2,403	2,720
Total operating expenses	**12,263**	**14,047**

Note:

(1) Consist primarily of depreciation, automobile, electronic equipment, travelling, conference, postage and telegraph, and other general and administrative expenses.

Our operating expenses increased by 14.5% to RMB14.0 billion for the nine months ended September 30, 2009 compared to RMB12.3 billion over the same period in 2008.

Staff Costs

Staff costs are the largest component of our operating expenses, representing 48.1% and 47.7% of our total operating expenses for the nine months ended September 30, 2009 and 2008, respectively.

The following table sets forth, for the periods indicated, the components of our staff costs.

	For the nine months ended September 30,	
	2008	2009
	(unaudited) (In millions of RMB)	
Staff costs		
Salaries and bonuses	4,350	5,190
Other benefits[1]	1,497	1,573
Total staff costs	**5,847**	**6,763**

Note:

(1) Consist primarily of statutory social security and additional health and pension benefits.

Staff costs increased by 15.7% to RMB6,763 million for the nine months ended September 30, 2009 compared to RMB5,847 million for the same period in 2008 primarily due to an increase in the average number of employees as a result of our continued business expansion. Our salaries and bonuses increased by 19.3% to RMB5,190 million for the nine months ended September 30, 2009 compared to RMB4,350 million over the same period in 2008. Other benefits increased by 5.1% to RMB1,573 million for the nine months ended September 30, 2009 compared to RMB1,497 million for the same period in 2008.

Business Tax and Surcharges

Business tax and surcharges mainly relate to revenue generated from our provision of financial products and services with respect to lending (interest income), financial leasing, transfer of securities, financial advisory services, and other financial services. Business tax and surcharges decreased by 6.8% to RMB2.0 billion for the nine months ended September 30, 2009 compared to RMB2.2 billion for the same period in 2008. The decrease in business tax and surcharges was mainly due to a decrease in our revenues subject to these taxes.

Business Development Expenses

Business development expenses increased by 28.6% to RMB979 million for the nine months ended September 30, 2009 compared to RMB761 million for the same period in 2008, primarily due to our overall business growth.

Office and Lease Expenses

Office and lease expenses increased by 44.4% to RMB1,562 million for the nine months ended September 30, 2009 compared to RMB1,082 million for the same period in 2008. The increase in office and lease expenses was primarily due to the increase in the number of our branches for business growth, including expenses relating to operating those branches and increased rent.

Other General and Administrative Expenses

Other general and administrative expenses increased by 13.2% to RMB2,720 million for the nine months ended September 30, 2009 compared to RMB2,403 million for the same period in 2008, reflecting our overall business growth.

Other Operating Expenses, net

Other net operating expenses mainly include other operating income such as tax rebates and other operating expenses such as provision charges for credit commitments, including acceptances, letters of guarantee, and letters of credit. Other net operating expenses was RMB426 million for the nine months ended September 30, 2009 compared to RMB83 million for the same period in 2008. Other net operating expenses for the nine months ended September 30, 2009 was primarily related to provision charges due to the increase in off-balance sheet amounts coupled with our more conservative approach in assessing provisions.

Profit Before Tax

As a result of the foregoing, our profit before tax increased by 13.7% to RMB13.5 billion for the nine months ended September 30, 2009 compared to RMB11.9 billion for the same period in 2008.

Income Tax

The following table sets forth our profit before tax, income tax expense and effective tax rate for the nine months ended September 30, 2009 and 2008.

	For the nine months ended September 30,	
	2008	2009
	(unaudited) (In millions of RMB)	
Profit before tax	11,851	13,473
Income tax	(3,177)	(3,260)
Effective tax rate	**26.8%**	**24.2%**

The applicable income tax rate (except for our Shenzhen branch) was 25% for 2008 and the nine months ended September 30, 2009. The decrease in our effective tax rate to 24.2% for the nine months ended September 30, 2009 as compared to 26.8% for the same period in 2008 mainly reflected a reduction of the tax deductability of certain performance based compensation expenses per supplementary regulations issued by the National Tax Administration in June 2008.

Net Profit

As a result of the foregoing factors, our net profit increased by 17.8% to RMB10.2 billion for the nine months ended September 30, 2009 compared to RMB8.7 billion for the same period in 2008.

Summary Segment Operating Results for the Nine Months Ended September 30, 2009 and 2008

For a discussion of our business and geographic lines, see "— Summary Segment Operating Results."

Summary Geographical Segment Information

In presenting information on the basis of geographical segments, profit before income tax is allocated based on the location of the branch that generated the revenue. The following table sets forth, for the periods indicated, the profit before income tax attributable to each of these geographical regions.

	For the nine months ended September 30,			
	2008		2009	
	Amount	% of Total	Amount	% of Total
	(unaudited) (In millions of RMB, except percentages)			
Northern China	3,139	26.5%	7,873	58.4%
Eastern China	4,388	37.0%	2,614	19.4%
Southern China	2,837	24.0%	1,221	9.1%
Others	1,487	12.5%	1,765	13.1%
Profit before income tax	**11,851**	**100.0%**	**13,473**	**100.0%**

Nine Months Ended September 30, 2009 Compared to Nine Months Ended September 30, 2008

In Northern China, our profit before income tax increased by 150.9% to RMB7.9 billion for the nine months ended September 30, 2009 compared to RMB3.1 billion for the same period in 2008. This increase was primarily due to the sale of all our shares in Haitong Securities over the first half of 2009, generating a gain of RMB4.9 billion (see "— Six Months Ended June 30, 2009 Compared to Six Months Ended June 30, 2008 — Net Gain/(loss) on Disposal of Available-for-sale Securities") coupled with increased net interest income, partially offset by lower fee and commission income and higher operating expenses.

In Eastern China, our profit before income tax decreased by 40.4% to RMB2.6 billion for the nine months ended September 30, 2009 compared to RMB4.4 billion for the same period in 2008. This decrease was primarily due an increase in impairment losses on assets reflecting more prudent policies on provisioning for impairment losses and higher operating expenses as a result of our business expansion coupled with a decrease in net interest income.

In Southern China, our profit before income tax decreased by 57.0% to RMB1.2 billion for the nine months ended September 30, 2009 compared to RMB2.8 billion for the same period in 2008. This decrease was primarily attributable to tighter lending policies in the region as well as a lower interest rate environment.

In other locations, profit before income tax increased by 18.7% to RMB1.8 billion for the nine months ended September 30, 2009 compared to RMB1.5 billion for the same period in 2008 mainly due to an increase in net interest income.

Summary Business Segment Information

We derive our revenue primarily from three business segments: corporate banking, retail banking and treasury business. For a description of products and services included in these business activities, see "Business — Our Principal Business Activities."

The following table sets forth, for the periods indicated, our total operating income of our principal business segments.

	For the nine months ended September 30,			
	2008		2009	
	Amount	% of Total	Amount	% of Total
	(unaudited) (In millions of RMB, except percentages)			
Corporate banking business	19,068	70.0%	18,729	59.8%
Retail banking business	4,449	16.4%	3,532	11.3%
Treasury business	3,430	12.6%	3,464	11.1%
Unallocated(1)	277	1.0%	5,604(2)	17.8%
Total operating income	**27,224**	**100.0%**	**31,329**	**100.0%**

Note:

(1) Includes businesses such as financial leasing, investment fund management and income that is not directly attributable to a segment or cannot be allocated on a reasonable basis.

(2) Amount primarily relates to our disposal of interest in Haitong Securities, see "— Six Months Ended June 30, 2009 Compared to Six Months Ended June 30, 2008 — Net gain/(loss) on Disposal of Available-for-sale Securities".

Capital Resources as of September 30, 2009

Shareholders' Equity

Our total shareholders' equity increased to RMB60.4 billion as of September 30, 2009 from RMB54.7 billion as of December 31, 2008 due to comprehensive income of RMB7.2 billion for the nine months ended September 30, 2009 partially offset by the payment of dividends in the aggregate amount of RMB1.5 billion over the period.

Capital Adequacy

Our capital adequacy ratio and core capital adequacy ratio were 8.57% and 6.02%, respectively, as of September 30, 2009, and our net core capital amounted to RMB59.7 billion and net capital amounted to RMB85.1 billion as of the same date.

Off-Balance Sheet Commitments

The following table sets forth the contractual amounts of our off-balance sheet commitments at the dates indicated.

	As of September 30, 2009
	(unaudited) (in millions of RMB)
Credit commitments:	
Acceptances	215,978
Letters of guarantee	49,408
Letters of credit	12,462
Unused Credit Card limits	29,844
Irrevocable Loan Commitments	5,153
Financing lease commitments	953
Subtotal	**313,798**
Capital commitments(1)	4,202
Operating lease commitments(2)	2,901
Securities underwriting(3)	6,150(5)
Redemption obligations(4)	4,195
Total off-balance sheet commitments	**331,246**

Notes:

(1) Capital commitments mainly consist of commitments in respect of contracted equity investment and buildings and equipment purchases.

(2) Operating lease commitments represent future minimum lease payments on operating leases for buildings.

(3) Securities underwriting represent underwriting for short-term financing bills and government bonds.

(4) We are entrusted by the Ministry of Finance to underwrite certain certificate government bonds. Investors of such bonds have the option to redeem the bonds at par value any time prior to maturity, and we are committed to repurchase such bonds at the redemption price. The redemption price is the principal value of such bonds plus unpaid interest in accordance with the early redemption arrangement. The original maturities of these bonds vary from one to five years. As the deposit base rate established by the PBOC is currently lower than the yields on all such bonds, we expect the amount of redemption before the maturity dates of these bonds will not be material.

(5) Securities underwriting increased from RMB3.3 billion as of June 30, 2009 to RMB6.15 billion as of September 30, 2009 mainly due to the growth in our underwriting business.

Contractual Obligations

The following table sets forth the face value of off-balance sheet contractual obligations by remaining contract maturity classified into the categories specified below as of September 30, 2009.

	As of September 30, 2009			
	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
	(unaudited) (in millions of RMB)			
Off-balance sheet:				
Acceptances	215,861	117	—	215,978
Letters of guarantee	6,972	40,279	2,157	49,408
Unused credit card limits	29,844	—	—	29,844
Letters of credit	11,264	1,198	—	12,462
Irrevocable loan commitments	1,769	78	3,306	5,153
Capital commitments	845	3,245	112	4,202
Operating lease commitments	539	1,946	416	2,901
Financial lease commitments	953	—	—	953
Total	268,047	46,863	5,991	320,901

QUANTITATIVE AND QUALITATIVE ANALYSIS OF MARKET RISK

Market risk is the risk of financial loss arising from changes in the value of a financial instrument as a result of changes in interest rates, foreign exchange rates, equity prices and commodity prices and other market changes that affect market risk-sensitive instruments. The market risks to which we are primarily exposed are interest rate risk and currency risk.

Interest Rate Risk

We are exposed to the effects of fluctuations in the prevailing levels of market interest rates on both (i) cash flow interest rate risk and (ii) fair-value interest rate risk. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair-value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

Since we predominantly operate in the PRC, we are subject to the interest rate scheme set and regulated by the PBOC. Interest margins may increase or decrease as a result of interest rate changes, which may reduce or create losses in the event that unexpected movements arise. However, the PBOC has historically adjusted its benchmark interest rates for loans and deposits in the same direction (although not necessarily by the same increment). We have primarily managed our exposure to interest rate risk through the management of the maturity profile of our loans and deposits.

Interest Rate Repricing Analysis

The following table sets forth the results of our gap analysis as of June 30, 2009, based on the earlier of (i) the next expected re-pricing dates, and (ii) the final maturity dates for our assets and liabilities.

	As of June 30, 2009					
	Up to 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Non-interest earning/bearing	Total
	(in millions of RMB)					
Financial assets						
Cash and due from banks and other financial institutions	20,244	1,184	—	—	2,652	24,080
Balances with Central Banks	134,641	—	—	—	—	134,641
Placements with banks and other financial institutions	167,760	6,835	—	—	—	174,595
Loans and advances to customer	752,391	131,880	4,323	2,084	—	890,678
Investment securities	17,505	23,749	78,957	29,617	224	150,052
Finance lease receivables	9,890	—	—	—	—	9,890
Other financial assets	7,709	5,186	—	—	2,421	15,316
Total financial assets	**1,110,140**	**168,834**	**83,280**	**31,701**	**5,297**	**1,399,252**
Financial liabilities						
Deposits from customers	779,144	209,376	86,409	380	—	1,075,309
Due to and placements from banks and other institutions	167,582	26,208	27,300	—	—	221,090
Borrowing from other financial institutions	250	7,450	700	—	—	8,400
Debt securities in issue	—	16,250	—	12,627	—	28,877
Other financial liabilities	6,866	24	82	—	4,816	11,788
Total financial liabilities	**953,842**	**259,308**	**114,491**	**13,007**	**4,816**	**1,345,464**
Total interest repricing gap	**156,298**	**(90,474)**	**(31,211)**	**18,694**	**481**	**53,788**

Sensitivity Analysis

We use sensitivity analysis to measure the potential effect of changes in interest rates on our net interest income. If the interest rate moves in parallel for 100 basis points from July 1, 2009, the potential impact on net interest income and equity for 2009 is a gain or loss of approximately RMB1,022 million for a 100 basis points upward or downward change of interest rate.

This sensitivity analysis, which is based on a static interest rate risk profile of assets and liabilities, is used for risk management purposes only. The analysis measures only the impact of changes in the interest rates within a year, as reflected by the repricing of our assets and liabilities within a year, on our annualized interest income, and is based on the following assumptions: (i) all assets and liabilities that reprice or are due "Up to 3 months" are considered repriced or due in 1.5 months, and "Between 3 months and 1 year" are considered repriced or due in 7.5 months, representing the middle of the respective periods as shown in the table under "— Interest Rate Repricing Analysis," (ii) there is a parallel shift in the yield curve and in interest rates, and (iii) there are no changes to the portfolio. Actual changes in our net interest income resulting from increases or decreases in interest rates may differ from results of this sensitivity analysis.

Duration Analysis

Interest rate risk also arises from our investment securities and trading assets. Changes in the prevailing level of interest rates may affect the value of debt securities. We primarily use duration analysis to measure and manage interest rate risk associated with our RMB- and U.S. dollar-denominated debt securities, which constitute substantially all of the debt securities in our investment securities and trading assets portfolio. Duration analysis is intended to show the approximate percentage change in value of an asset or liability resulting from a 100 basis point change in interest rates. As of June 30, 2009, the weighted average duration expressed in terms of sensitivity of the economic value of our RMB-denominated and U.S. dollar-denominated debt securities to interest rate changes was 3.13 and 2.40, respectively. Therefore, for a 100 basis point increase in interest rates, the economic value of our RMB-denominated debt securities would decrease by 3.13%, which would amount to RMB3,620 million as of June 30, 2009, and the economic value of our U.S. dollar-denominated debt securities would decrease by 2.40%, which would amount to an equivalent of RMB24.7 million at the same date. For the purpose of calculating duration, economic value represents the present value of future cash flows, which is calculated by discounting future cash flows on debt securities at the prevailing market yield curve.

The above analysis is based on the following assumptions: (i) there is no change in future cash flows of interest and principal payments resulting from the change in interest rates, (ii) there is a parallel shift in the yield curve and in interest rates, (iii) the effect of convexity, which measures the extent to which a debt security's value-yield curve may deviate from a straight line, was not considered, and (iv) there are no other changes to the portfolio. Duration analysis has certain limitations: while it is relatively accurate in measuring value changes from a small change in interest rates, this methodology is much less accurate in measuring value changes from large changes in interest rates. Actual changes in the value of debt securities resulting from increases or decreases in interest rates may differ from the results of this duration analysis.

In an effort to control interest rate risk arising from our investment securities and trading assets, we set limits on the duration of our RMB-denominated and U.S. dollar-denominated debt securities, and regularly review and, where necessary, reset these limits.

Currency Risk

We are exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on our financial position and cash flows. Our foreign currency risk mainly arises from the Hong Kong dollar's peg to the U.S. dollar. The primary source of our exchange rate risk arises from currency mismatches in our assets and liabilities. We primarily monitor our net currency positions to assess our exposure to exchange rate risk. We manage our exchange rate risk primarily by seeking to match the assets and liabilities on a currency-by-currency basis.

The following table sets forth, as of June 30, 2009, our financial assets and liabilities by currency.

	As of June 30, 2009				
	RMB	USD	HKD	Others	Total
	(In millions of RMB equivalent)				
Assets					
Cash and due from banks and other financial institutions	17,855	4,570	125	1,530	24,080
Balances with central banks	133,471	1,097	73	—	134,641
Placements with banks and other financial institution	173,431	410	106	648	174,595
Loans and advances to customers	884,553	5,470	3	652	890,678
Investment securities	143,863	6,080	109	—	150,052
Finance lease receivable	9,890	—	—	—	9,890
Other financial assets	14,806	237	2	271	15,316
Total financial assets	**1,377,869**	**17,864**	**418**	**3,101**	**1,399,252**
Liabilities					
Deposits from customers	1,056,954	15,322	1,159	1,874	1,075,309
Due to and placements from banks and other financial institutions	219,393	1,180	37	480	221,090
Borrowing from other financial institutions	28,877	—	—	—	28,877
Debt securities in issue	8,400	—	—	—	8,400
Other financial liabilities	11,066	406	14	302	11,788
Total financial liabilities	**1,324,690**	**16,908**	**1,210**	**2,656**	**1,345,464**
Net on-balance sheet financial position	**53,179**	**956**	**(792)**	**445**	**53,788**
Foreign currency derivatives(1)	6	(1,314)	1,137	310	141
Credit commitments	369,875	28,021	205	4,052	402,153

Note:

(1) Represents the notional amount of foreign currency derivatives, including currency forward and currency swap. The notional amount of such items was recorded off-balance sheet while the fair value was recorded on the balance sheet.

Sensitivity Analysis

As of June 30, 2009, given a 1% upward or downward change of exchange rate between a foreign currency and Renminbi, the potential impact on our pre-tax profits and equity as a result of the translation gain or loss on our foreign exchange exposure is approximately RMB6 million.

In performing the exchange rate sensitivity analysis, we make the following general assumptions in defining business terms and financial parameters, and have not considered the following:

- Changes after the balance sheet date, as the analysis is performed based on static gap at the time point of the balance sheet date;
- The impact of exchange rate fluctuations on customer behavior;
- The complicated relationship between complex structured products (e.g. embedded early redemption options and other derivative financial instruments) and foreign exchange movements; and
- The impact of exchange movements on market prices.

FINANCIAL DERIVATIVES

The following table sets forth, at the dates indicated, the contractual/notional amount and the fair values of our financial derivatives.

	As of December 31,									As of June 30,		
	2006			2007			2008			2009		
	Contractual/ Notional Amount	Fair Values Assets	Fair Values Liabilities	Contractual/ Notional Amount	Fair Values Assets	Fair Values Liabilities	Contractual/ Notional Amount	Fair Values Assets	Fair Values Liabilities	Contractual/ Notional Amount	Fair Values Assets	Fair Values Liabilities
	(In millions of RMB)											
Currency forwards	3,006	8	(7)	13,398	310	(301)	11,498	211	(266)	5,514	43	(38)
Interest rate swaps	19,243	194	(370)	44,528	962	(1,135)	17,711	987	(969)	14,545	449	(441)
Currency swaps	1,479	—	(1)	1,359	12	(4)	1,531	18	—	2,681	5	(3)
Precious metal swaps	—	—	—	370	1	(3)	163	—	—	976	9	—
Credit default swaps	156	1	(1)	73	—	(1)	68	—	(4)	68	—	(1)
Bond options	234	—	(4)	—	—	—	—	—	—	—	—	—
Currency options	64	9	(9)	—	—	—	—	—	—	—	—	—
Extension options	9,015	—	—	9,015	—	—	9,015	—	—	14,015	—	—
Total		**212**	**(392)**		**1,285**	**(1,444)**		**1,216**	**(1,239)**		**506**	**(483)**

Our financial instruments measured at fair value include: financial assets held for trading, derivative financial instruments and available-for-sale investments. Trading financial assets and securities investments in available-for-sale investments are evaluated using the following methods: for RMB bonds, in principle the quotations provided by China Government Securities Depository Trust & Clearing Co. Ltd. shall apply; for foreign currency bonds, the market value is determined through a combination of Bloomberg quotations, Datascope quotations and inquiries; for shares in other listed companies, the closing price at the period end is used; and the fair value of derivative financial instruments is based on by market prices. We have limited investments in trading financial assets, and thus the changes in fair value of available-for-sale investments are charged to the owner's equities.

We use financial derivatives mainly to hedge our interest rate risk and foreign exchange risk, including such risks arising from our transactions with customers. Financial derivatives are off-balance sheet financial instruments, including forward foreign currency contracts, foreign currency swaps and interest rate swaps. Interest rate swaps are agreements between us and a counterparty where one stream of future interest payments is exchanged for another based on a specified principal amount. Forward foreign currency exchange transactions are purchases or sales of foreign currencies at an exchange rate established at the date of transaction but with payment and delivery at a specified future time. Foreign currency swaps are agreements between us and a counterparty to exchange principal and interest in one currency for the same in another currency. While certain of these derivative transactions are intended to provide effective economic hedges under our risk management positions, they do no qualify for hedge accounting under specific rules under IAS 39 and are therefore treated as derivatives held for trading with changes in fair value reported in income. We do not have any derivative positions that are accounted for as hedges. See Note 16 to the Accountant's Report in Appendix I to this prospectus.

CAPITAL EXPENDITURES

Our capital expenditures from January 1, 2006 through June 30, 2009 were primarily related to purchases of fixed assets relating to buildings, leasehold improvements, office equipment and motor vehicles, as we expanded our business and increased our personnel.

Our capital expenditures were RMB1,260 million for the six months ended June 30, 2009, primarily representing our expenses for purchase and leasing of real property, improvements of leased property and purchases of electronic equipment and software. In 2008, our capital expenditures for property, plant and equipment and other assets totaled RMB1,761 million, a decrease of 55.5% compared to RMB3,960 million in 2007, which in turn represented an increase of 143.4% compared to RMB1,627 million in 2006. The significant increase in capital expenditures in 2007 was due to our non-recurring capital contribution of RMB2.6 billion in establishing Minsheng Leasing during the year.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. The estimates that we use in applying our accounting policies may have a significant impact on our results of operations and financial positions included in this section and elsewhere in this prospectus. These estimates involve assumptions about such items as cash flows and discount rates used. Our estimates and assumptions are based on historical experience and expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgments are also made during the process of applying our accounting policies. Below is a summary of the accounting policies in accordance with IFRS that we believe are both important to the financial presentation and involve the need to significant estimates and/or assumptions.

Impairment Losses on Loans and Advances

Loan portfolios are assessed periodically to evaluate whether impairment losses exist and if they exist, the amounts of impairment losses. Loans and advances which are considered individually significant, are assessed individually for impairment. A corporate loan or discounted bill is impaired and impairment losses are incurred when there is objective evidence of impairment as a result of one or more of the following loss events that will affect the estimated future cash flows of such loans or discounted bills:

- adverse changes in the payment status of the borrower;
- significant financial difficulty of the obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- our granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that we would not otherwise consider;
- the probability that the borrower will enter bankruptcy or other financial reorganization proceedings; or
- observable data indicating that there is a measurable decrease in the estimated future cash flow of the borrower's business operations.

The impairment loss for an impaired, individually significant loan is individually measured as the difference between the loan's carrying amount and the present value of the estimated future cash flows discounted at the loan's original effective interest rate. For loans secured by collateral, the present value of the estimated future cash flow reflects the cash flow that may result from foreclosure less the costs of foreclosing on and selling the collateral, whether or not foreclosure is probable. The carrying amount of the loan is reduced by the amount of the related allowance for impairment losses.

Corporate loans and discounted bills that exhibit no objective evidence of impairment on an individual basis and homogeneous groups of loans that are individually insignificant, i.e., retail loans, are assessed collectively for impairment. The estimated impairment loss for loans assessed collectively for impairment is based on the following considerations:

- the structure and risk characteristics of our loan portfolio (indicating the borrower's ability to repay all loans) and the incurred loss of the individual components of the loan portfolio based primarily on our historical loss experience;

- the emergence period between a loss occurring and that loss being identified and evidenced by the establishment of an allowance against the loss on an individual loan; and
- management's judgment as to whether the current economic and credit conditions are such that the actual level of impairment losses is likely to be greater or less than that suggested by historical experience.

Portfolios of homogeneous loans are collectively assessed using roll rate or historical loss rate methodologies. The length of time for which loans are overdue represents the major observable objective evidence for impairment.

We set aside allowances based on the individually assessed or collectively assessed impairment losses, as the case may be.

Before objective evidence is identified for an individually significant loan, the loan is grouped with other loans with similar credit risk characteristics for purposes of calculating a collective impairment allowance. As soon as objective evidence of impairment is identified for an individually significant loan, the loan is removed from that group and is then individually assessed for impairment.

We have adopted one set of methodologies for the purpose of calculating our allowance for impairment losses. There is no difference between the amount of the allowance for impairment losses reported in our financial statements prepared in accordance with IFRS and the amount reported in our PRC GAAP financial statements.

Impairment of Available-for-sale Financial Assets and Held-to-maturity Investments

For available-for-sale financial assets and held-to-maturity investments, IAS 39 is used for guidance in determining impairment of available-for-sale financial assets and held-to-maturity investments. The determination of impairment requires a high level of management judgment. In making this judgment, we evaluate, among other factors, the duration and extent to which the fair value of an investment is less than its cost. We also take into account the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, technological changes, credit ratings, delinquency rates, loss provision coverage and counterparty risk.

Fair Value of Derivative and Other Financial Instruments

The fair value of financial instruments are determined with reference to a quoted market price in an active market or, if there is no active market, using valuation techniques. These valuation techniques include the use of recent arm's length transactions observable prices for similar instruments, discounted cash flow analysis using risk-adjusted interest rates, and commonly used market pricing models. Whenever possible these models use observable market inputs and data including, for example, interest rate yield curves, foreign currency rates and option volatilities. The results of using valuation techniques are calibrated against industry practice and observable current market transactions in the same or similar instruments.

Held-to-maturity Investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity. This classification requires significant judgment. In making this judgment, we evaluate our intention and ability to hold such investments to maturity. Other than in specific circumstances (e.g. sale of an insignificant amount of held-to-maturity securities at a time close to maturity), failure to hold these securities to maturity or reclassification of some of the securities to available-for-sale investments requires reclassification of any of the remaining securities as available-for-sale investments and measuring them at fair value rather than amortized cost.

Income Taxes

In the ordinary course of business, many transactions and calculations involve uncertainties in the ultimate tax determination, and significant estimates are required in determining the provision for income taxes. We recognize liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period during which such a determination is made. On March 16, 2007, the National People's Congress adopted the new Enterprise Income Tax Law of the People's Republic of China, which became effective on January 1, 2008. In the ordinary course of business, the ultimate tax treatment and computation of many transactions involve uncertainties due to the impact of, among other things, some implementation rules of the new Enterprise Income Tax Law that have not been finalized. We make tax estimates on the tax deductibility of loan loss write-offs and losses on disposal of non-performing loans in compliance with the applicable tax laws and regulations and the responses of government authorities to us in previous years. Where the final tax outcome of these matters is different from the estimates, such differences will impact the income tax and deferred income tax provisions in the period during which such a determination is made.

RECENT ACCOUNTING PRONOUNCEMENTS

Up to the date of this prospectus, the IASB has issued the following amendments, new standards and interpretations which are not yet effective for the accounting periods ended June 30, 2009 and which have not been adopted in the presentation of our financial information:

New Amendments, Standards, Interpretations	Effective for annual periods beginning on or after
IFRS 3 (Revised) Business Combination	July 1, 2009
IAS 27 (Revised) Consolidated and Separate Financial Statements	July 1, 2009
IFRIC 17 Distribution of Non-cash Assets to Owners	July 1, 2009
IFRIC 18 Transfers of Assets From Customers	July 1, 2009
Amendment to IFRS 2 Group Cash-settled Share-based Payment Transactions	January 1, 2010
Amendment to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations	January 1, 2010
Amendment to IFRS 8 Operating Segments	January 1, 2010
Amendment to IAS 1 Presentation of Financial Statements	January 1, 2010
Amendment to IAS 7 Statement of Cash Flows	January 1, 2010
Amendment to IAS 17 Leases	January 1, 2010
Amendment to Appendix to IAS 18 Revenue	July 1, 2009
Amendment to IAS 36 Impairment of Assets	January 1, 2010
Amendment to IAS 38 Intangible Assets	July 1, 2009
Amendment to IAS 39 Financial Instrument: Recognition and Measurement	July 1, 2009
Amendment to IFRIC 9 Reassessment of Embedded Derivatives	July 1, 2009
Amendment to IFRIC 16 Interpretation Hedges of a Net Investment in a Foreign Operation	July 1, 2009

The application of these standards, amendments and interpretations is not expected to have a material effect in our Group's operating results or financial position.

FINANCIAL DISCLOSURES AFTER GLOBAL OFFERING

To enhance the comparability of our financial information published in Hong Kong and the PRC, after the completion of the Global Offering, we will publish annual and semi-annual financial reports under IFRS and publish quarterly reports under PRC GAAP together with a reconciliation from PRC GAAP to IFRS.

RELATED PARTY DISCLOSURES

We have no related parties for which there exists a controlling relationship. Related parties that have significant influence on the Group include companies controlled or significantly influenced by members of the Board and Supervisory Board, senior management or their related persons, the subsidiaries of these companies, and major shareholders with the power to influence the operating decision-making or financial policies of the Group. Related party transactions include loans granted to related parties and deposits taken from related parties. As of June 30, 2009, loans outstanding to related parties totaled RMB2.0 billion.

All loans to related parties complied with relevant laws and regulations and our terms of lending and appraisal procedures. Related party transactions did not have a significant impact on our results of operations or financial position over the Track Record Period. The following table provides a summary of the loans and deposits we have with related parties for the years ended December 31, 2006, 2007 and 2008 and for the six months ended June 30, 2009, respectively.

	For the year ended December 31,			For the six months ended June 30,
	2006	2007	2008	2009
	(In millions of RMB)			
Loans granted to related parties				
Opening balance	3,772	4,226	1,653	1,814
Loans granted during the period	1,392	501	920	1,564
Loan repayments/transfers during the period	(938)	(3,074)	(759)	(1,394)
Ending balance	4,226	1,653	1,814	1,984
Interest income earned	248	85	99	45
Deposits taken from related parties				
Opening balance	2,111	3,031	2,544	19,908
Deposits taken during the period	49,763	46,572	108,215	15,232
Deposits repaid during the period	(48,843)	(47,059)	(90,851)	(6,692)
Ending balance	3,031	2,544	19,908	28,448

INDEBTEDNESS

At September 30, 2009, we had the following indebtedness:

(a) Debt securities in issue totaling RMB29.2 billion consisting of financial bonds (RMB12.1 billion), subordinated bonds (RMB7.5 billion), and hybrid capital bonds (RMB9.6 billion). See note 26 to the Unaudited Interim Financial Report in Appendix II for details;

(b) Borrowings from other financial institutions amounting to RMB11.9 billion;

(c) Borrowings from foreign governments amounting to RMB0.4 billion;

(d) deposits and money market takings from customers and other banks and balances under repurchase agreements that arose from the normal course of our banking business; and

(e) direct credit substitute, transaction-related contingencies, trade-related contingencies and other commitments that arose from the normal course of our banking business.

Except as disclosed above, we did not have, at September 30, 2009, our latest balance sheet date, any outstanding mortgages, charges, debentures, or other loan capital (issued or agreed to be issued), bank overdrafts, loans, liabilities under acceptance or other similar indebtedness, hire purchase and finance lease commitments or any guarantees or other material contingent liabilities.

Our Directors have confirmed that there has not been any material adverse change in the indebtedness or contingent liabilities of our Group since September 30, 2009.

RECENT DEVELOPMENTS

We completed the acquisition of an aggregate of 9.9% stake in UCBH at US$125,631,018.9 (equivalent to approximately RMB887 million using the exchange rate prevailing at that time) on March 5, 2008 and December 23, 2008 respectively. See "Corporate History and Organizational Structure — Our Shareholding and Group Structure — Our Investment in Other Financial Institutions — UCBH Holdings, Inc." UCBH is a bank holding company that conducts its principal business through its wholly owned banking subsidiary, United Commercial Bank ("***UCB***"). On November 6, 2009, the Federal Deposit Insurance Corporation in the United States ("***FDIC***") announced that UCB was closed by the California Department of Financial Institutions, which appointed the FDIC as receiver. To protect the depositors of UCB, the FDIC entered into a purchase and assumption agreement with East West Bank, Pasadena, California, to assume all of the deposits of UCB. This agreement included all U.S. branches of UCB, the Hong Kong branch of UCB, and the subsidiary of UCB headquartered in Shanghai, China, United Commercial Bank ("***UCB-China***"). The FDIC announcement stated that UCB-China would continue its regular banking operations without interruption with the full support of East West Bank. The CBRC issued an announcement ("***CBRC Announcement***") on November 7, 2009. According to the CBRC Announcement, UCB-China is in sound operating status in China and has sufficient liquidity and equity. As of September 30, 2009, the net book value of our Bank's investment in UCBH was approximately RMB63 million, representing 0.004% and 0.1% of our total assets and net assets as of September 30, 2009. We have limited inter-bank business with UCB-China. The Directors are of the view that the acquisition of UCB by East West Bank will not have any material impact on our Bank's financial position, operation and business. The contracted purchase price of our investment in UCBH was RMB887 million while its initial fair value was RMB564 million. Accordingly, we recognized a net trading loss of RMB323 million in 2008. For the six months ended June 30, 2009 and the three months ended September 30, 2009, due to the further deteriorated financial condition of UCBH, we made impairment loss on assets of RMB290 million and RMB211 million, respectively. We will take into consideration of the financial position of UCBH in deciding whether we need to make further impairment loss.

PROPERTY INTERESTS AND VALUATION OF PROPERTIES

For the purpose of the listing of our shares on the Hong Kong Stock Exchange, our properties were revalued at RMB7,152 million at September 30, 2009 by Jones Lang LaSalle Sallmanns Limited. Details of the valuation are summarized in Appendix VI to this prospectus. In accordance with our accounting policy, all properties are stated at cost less accumulated depreciation. At June 30, 2009, the net book value of our properties comprising land and building, and construction in progress amounted to RMB5,620 million as set out in the Accountant's Report included in Appendix I.

The table below sets forth (i) the reconciliation of property interests of the Group from its audited consolidated financial statements as of June 30, 2009 to the unaudited net book value of the Group's property interests as of September 30, 2009; and (ii) the reconciliation of the unaudited net book value of the Group's property interests and the valuation of such property interests as of September 30, 2009:

	RMB'000
Net book value of property interests of the Group as of June 30, 2009	5,619,841
Land and buildings	2,965,322
Construction in progress	2,654,519
Movements for the three months ended September 30, 2009	163,699
Additions	194,135
Depreciation	(30,436)
Disposals	—
Net book value as of September 30, 2009	5,783,540
Valuation surplus as of September 30, 2009	1,368,200
Valuation as of September 30, 2009 per Appendix VI	7,151,740

Any net revaluation surplus arising from the valuation of properties has not been included in the unaudited pro forma statement of adjusted net tangible assets under the section headed "Financial Information — Unaudited Pro Forma Statement of Adjusted Net Tangible Assets" in this prospectus.

RULES 13.13 TO 13.19 OF THE HONG KONG LISTING RULES

We confirm that there are no circumstances which will trigger disclosure requirements under Rule 13.13 to Rule 13.19 of the Hong Kong Listing Rules.

PROFIT FORECAST FOR THE YEAR ENDING DECEMBER 31, 2009

The following unaudited pro forma forecast earnings per share for the year ending December 31, 2009 has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on January 1, 2009. This unaudited pro forma forecast earnings per share has been prepared for illustrative purposes only and, because of its nature, it may not give a true picture of the financial results of our Group for the year ending December 31, 2009 or any future period.

Forecast consolidated net profit attributable to equity holders of the Bank for the year ending December 31, 2009(1)	not less than RMB11.0 billion
Unaudited pro forma forecast earnings per share(2)	RMB0.50 (HK$0.56)

Notes:

(1) The forecast consolidated net profit attributable to equity holders of the Bank for the year ending December 31, 2009 is extracted from the section headed "Financial Information — Profit Forecast for the Year Ending December 31, 2009" in the Prospectus. The bases and assumptions on which the profit forecast has been prepared are set out in Appendix V to this Prospectus. The forecast consolidated net profit attributable to equity holders of the Bank for the year ending December 31, 2009 is based on the audited consolidated results of the Group for the six months ended June 30, 2009, the unaudited consolidated results of the Group based on management accounts for the three months ended September 30, 2009 and a forecast of the consolidated results for the remaining three months ending December 31, 2009. The forecast has been prepared on the basis of accounting policies consistent in all material respects with those presently adopted by the Group as set out in note 2 of section VI of the Accountant's Report, the text of which is set out in Appendix I to this prospectus.

(2) The calculation of the unaudited pro forma forecast earnings per share is based on the forecast consolidated net profit attributable to equity holders of the Bank for the year ending December 31, 2009 and on the basis that 22,144,707,989 shares were in issue during the entire year and assuming that the Global Offering had been completed on January 1, 2009. This calculation takes no account of any shares which may fall to be issued upon the exercise of the Over-allotment Option.

DIVIDEND POLICY

Our Board is responsible for submitting proposals in respect of dividend payments, if any, to the shareholders' general meeting for approval. The determination of whether to pay a dividend and in what amount is based on our results of operations, cash flow, financial condition, capital adequacy ratios, future business prospects, statutory and regulatory restrictions on the payment of dividends by us and other factors that our Board deems relevant. Under the Company Law and our Articles of Association, all of our shareholders holding the same class of shares have equal rights to dividends and other distributions proportionate to their shareholding. We generally pay dividends out of our distributable profit, which is our net profit as determined under PRC GAAP or IFRS, whichever is lower, less:

- recovery of any accumulated losses;
- appropriations we are required to make to the statutory surplus reserve, which is currently 10% of our net profit available for appropriation as determined under PRC GAAP, until such reserve reaches an amount equal to 50% of our registered capital;
- a regulatory general reserve we are required to set aside; and
- appropriations to a discretionary surplus reserve as approved by the shareholders in an annual general meeting.

According to our Articles of Association, the accumulative profit distribution in cash for the last three years shall be no less than 30% of the annual average distributable profit realized for the last three years.

According to recent MOF regulations, in principle, from July 1, 2005, we are required to maintain a regulatory general reserve at 1% of the balance of our risk-bearing assets prior to making a profit distribution. This regulatory general reserve constitutes part of our reserves. Financial institutions that did not meet this regulatory general reserve requirement at as of July 1, 2005 are required to take necessary steps to meet this requirement in approximately three years, but not later than five years, from July 1, 2005. We have since met this requirement. As of December 31, 2008, the balance of our risk-bearing assets totaled RMB800.0 billion, and we set aside RMB8.0 billion as regulatory general reserve.

Any distributable profit that is not distributed in a given year is retained and available for distribution in subsequent years. However, ordinarily we do not pay any dividends in a year in which we do not have any distributable profit in respect of that year. The payment of any dividend by us must also be approved at a shareholders' general meeting.

The CBRC has the discretionary authority to prohibit any bank that has a capital adequacy ratio below 8% or a core capital adequacy ratio below 4%, or has violated certain other PRC banking regulations, from paying dividends and making other forms of distributions. See "Supervision and Regulation — Supervision Over Capital Adequacy" As of June 30, 2009, we had a capital adequacy ratio of 8.48% and a core capital adequacy ratio of 5.90%.

In respect of the nine months ended September 30, 2009, no dividend was approved. We paid cash dividends in the amount of RMB1,506 million and RMB724 million and in respect of the year ended December 31, 2008 and 2007, respectively, representing RMB0.08 and RMB0.05 per share before tax. We did not pay any cash dividends in 2006. Following the Global Offering, our holders of H Shares and A Shares will have an equal right to the distributable profit remaining as of December 31, 2008. They will also have an equal right to distributable profit in respect of the year ending December 31, 2009 and thereafter.

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative and unaudited pro forma statement of adjusted consolidated net tangible assets attributable to the equity holders of the Bank which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on June 30, 2009. This unaudited pro forma statement of adjusted consolidated net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, as a result, it may not give a true picture of the financial position of our Group had the Global Offering been completed as at June 30, 2009 or at any future date.

	Audited consolidated net tangible assets attributable to the equity holders of the Bank as of June 30, 2009(1)	Estimated net proceeds from the Global Offering(2)	Unaudited pro forma adjusted consolidated net tangible assets attributable to the equity holders of the Bank	Unaudited pro forma adjusted consolidated net tangible assets per Share(3)	
	(In millions of RMB)			(RMB)	(HK$)
Based on the Offer Price of HK$8.50 per Offer Share	57,067	24,191	81,258	3.67	4.17
Based on the Offer Price of HK$9.50 per Offer Share	57,067	27,044	84,111	3.80	4.31

Notes:

(1) The audited consolidated net tangible assets attributable to the equity holders of the Bank as of June 30, 2009 is extracted from the Accountant's Report set forth in Appendix I to the prospectus, which is based on the audited consolidated net assets attributable to the equity holders of the Bank as of June 30, 2009 of RMB57,255 million with an adjustment for the intangible assets as of June 30, 2009 of RMB188 million.

(2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK$8.50 and HK$9.50 per Share, respectively, after deduction of the underwriting fees and other related expenses payable by the Bank, and do not take into account of any Shares that may be issued pursuant to the Over-Allotment Option.

(3) The unaudited pro forma adjusted net tangible assets per Share are determined after the adjustments as described in note 2 above and on the basis that 22,144,707,989 Shares are issued and outstanding, assuming the Global Offering had been completed on June 30, 2009 but takes no account of any shares which may fall to be issued upon the exercise of the Over-Allotment Option.

(4) As at September 30, 2009, our properties were revalued by Jones Lang LaSalle Sallmanns Limited, an independent property valuer, and the relevant property valuation report is set out in Appendix VI to this prospectus. The net revaluation surplus of those properties classified under the caption "property and equipment" in Appendix I — "Accountant's Report", representing the excess of market value of such properties over their carrying value, is approximately RMB1,330 million. In accordance with our accounting policy, such properties are stated at historical cost less accumulated depreciation and impairment. As such, the amount of such net revaluation surplus will not be included in our consolidated financial statements for the year ending December 31, 2009 nor the calculation of the above unaudited pro forma adjusted consolidated net tangible assets. Had these properties been stated at such valuation, an additional depreciation of RMB53.5 million per annum would have been incurred.

(5) No adjustments have been made to our unaudited pro forma adjusted consolidated net tangible assets to reflect any trading results or other transactions which we entered into subsequent to June 30, 2009.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in our financial or trading position since June 30, 2009.

WORKING CAPITAL

Rule 8.21A(1) and Paragraph 36 of part A of Appendix 1A of the Hong Kong Listing Rules require this prospectus to include a statement by our directors that, in their opinion, the working capital available to our Group is sufficient or, if not, how it is proposed to provide the additional working capital our directors consider to be necessary. We are of the view that the traditional concept of "working capital" does not apply to banking businesses such as ours. We are regulated in the PRC by, among others, the PBOC and the CBRC. These regulatory authorities impose minimum capital adequacy and liquidity requirements on commercial banks operating in the PRC. Rule 8.21A(2) of the Hong Kong Listing Rules provides that such a working capital statement will not be required to be made by an issuer whose business is entirely or substantially that of the provision of financial services, provided that the Hong Kong Stock Exchange is satisfied that the inclusion of such a statement would not provide significant information for investors and the issuer's solvency and capital adequacy are subject to prudential supervision by another regulatory body. In view of the above, pursuant to Rule 8.21A(2) of the Hong Kong Listing Rules, we are not required to include a working capital statement from the directors in this prospectus.