This section contains information pertaining to the industry in which we operate. We have extracted and derived such information, in part, from various official or publicly available sources. We believe that the sources of this information are appropriate for such information and have taken reasonable care in compiling and reproducing such information. While we have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading, the information has not been independently verified by us or any of our affiliates or advisors, nor by any of the underwriters or any of their affiliates or advisors, and no representation is given as to its accuracy. In addition, certain financial data contained in this section, including data relating to us, have been compiled in accordance with PRC GAAP, and differ from our IFRS financial data presented elsewhere in this prospectus.

OVERVIEW

China's economy has grown significantly over the past three decades as a result of the PRC government's extensive economic reforms. According to the NBSC, China's nominal GDP grew at a CAGR of 16.0% from RMB18.5 trillion to RMB33.5 trillion between 2005 and 2009. According to the World Bank, China was the third largest economy in the world in terms of GDP in 2009. The following table sets forth China's GDP and GDP per capita from 2005 to 2009.

	For the year ended December 31,					
	2005	**2006**	**2007**	**2008**	**2009**	**CAGR**
Nominal GDP (in billions of RMB)	18,494	21,631	26,581	31,405	33,535	16.0%
GDP per capita (in RMB)	14,144	16,456	20,117	23,648	25,125	15.4%

Source: NBSC

The rapid growth of China's economy has driven the expansion of the banking industry. From 2005 to 2009, total RMB-denominated loans and RMB-denominated deposits of China's banking institutions increased at CAGRs of 19.7% and 20.1%, respectively. The following table sets forth the total loans and total deposits denominated in RMB and in foreign currencies, for the periods indicated, for banking institutions in China.

	At December 31,					
	2005	**2006**	**2007**	**2008**	**2009**	**CAGR**
Total loans denominated in RMB (in billions of RMB)	19,469	22,529	26,169	30,340	39,969	19.7%
Total deposits denominated in RMB (in billions of RMB)	28,717	33,543	38,937	46,620	59,774	20.1
Total loans denominated in foreign currencies (in billions of US$)	151	166	220	244	380	26.0
Total deposits denominated in foreign currencies (in billions of US$)	162	161	160	179	209	6.6%

Source: PBOC

In line with rising national income levels, retail customer deposits from both Urban Areas and County Areas have been growing rapidly and have become an important source of funding for China's banking industry. From 2005 to 2009, the CAGRs of domestic retail RMB-denominated time deposits and demand deposits were 15.6% and 19.6%, respectively. The following table sets forth the amounts of domestic retail RMB-denominated time deposits and demand deposits from 2005 to 2009.

	At December 31,					
	2005	2006	2007	2008	2009	CAGR
	(in billions of RMB except percentages)					
Retail RMB-denominated time deposits	9,226	10,301	10,829	14,367	16,473	15.6%
Retail RMB-denominated demand deposits	4,879	5,858	6,746	7,834	9,992	19.6%

Source: PBOC

HISTORY AND DEVELOPMENT

From 1949 through the 1970s, China's banking industry functioned as part of a centrally planned economy. The PBOC served as China's central bank as well as the primary commercial bank for deposit-taking, lending and settlement activities. Since the late 1970s, as part of China's national economic reforms, the banking industry has undergone significant changes. Several of the PBOC's commercial banking functions were separated from the PBOC's central bank functions. The Big Four assumed the role of state-owned specialized banks, while the State Council officially designated the PBOC as China's central bank and as the principal regulator of China's banking system. The Big Four were designated to specialize in agrarian financing, foreign exchange and trade finance, construction and infrastructure financing and urban commercial financing, respectively. The State Council granted the Big Four limited autonomy with respect to their commercial operations and as China's economic reforms progressed, permitted them to expand into other commercial banking businesses beyond their specialized functions.

In the mid-1980s, a number of new commercial banks and non-bank financial institutions were established. Some of these new commercial banks, known as the Other National Commercial Banks, were permitted to offer nationwide commercial banking services, while others were permitted to operate only in local markets. However, during this period, China's banking system continued to be tightly restricted by government plans and policies, and China's banks did not operate on an independent or commercial basis.

In the mid-1990s, the PRC government accelerated its financial reforms and began to encourage the Big Four to operate on a more commercial basis. In 1994, the PRC government established three policy banks—China Development Bank, The Export-Import Bank of China and Agricultural Development Bank of China—to assume most of the policy lending functions of the Big Four. Accordingly, the Big Four started to be transformed into state-owned commercial banks. In 1995, the PRC Commercial Banking Law and the PRC People's Bank of China Law were enacted, which further defined the business scope for commercial banks and the functions and powers of the PBOC as the central bank and the banking industry regulator. In 2003, the CBRC was established as the primary banking industry regulator and assumed most of the regulatory functions of the PBOC.

China's banking industry historically was characterized by substantial non-performing loans. Since the late 1990s, the PRC government has taken numerous initiatives to improve the asset quality and strengthen the capital base of PRC commercial banks, including the following:

- In 1998, the MOF issued special government bonds and used the proceeds of RMB270.0 billion to make capital contributions to the Big Four to improve their capital adequacy.
- In 1999, in order to further the reform of the PRC financial system, the PRC government established four wholly state-owned financial asset management companies—China Huarong Asset Management Corporation, China Great Wall Asset Management Corporation, China Cinda Asset Management Corporation and China Orient Asset Management Corporation—as vehicles to acquire, manage and dispose of non-performing assets of the Big Four. In 1999, the Big Four and China Development Bank transferred a total of RMB1,393.9 billion of their non-performing loans and other impaired assets to these asset management companies.
- In 2001, China joined the WTO and started to gradually open its banking sector to foreign financial institutions.
- In 2003, Huijin made a capital contribution of US$22.5 billion to each of Bank of China and China Construction Bank.
- In 2004, the MOF and Huijin made a total capital contribution of RMB8 billion to Bank of Communications.
- In 2005, Huijin made a capital contribution of US$15 billion to Industrial and Commercial Bank of China.
- In 2008, Huijin made a capital contribution of approximately US$19 billion (equivalent to RMB130 billion) to us prior to our transformation into a joint stock limited liability company. For a description of our restructuring, see "Our History, Restructuring and Operational Reform—Financial Restructuring."

As a result of the aforementioned efforts coupled with the rapid growth of the Chinese economy, the asset quality of China's Large Commercial Banks has improved significantly, which lays a foundation for future growth in the PRC banking sector. Furthermore, subsequent to the disposal of non-performing loans and equity contributions from Huijin, Bank of Communications, China Construction Bank, Bank of China and Industrial and Commercial Bank of China introduced domestic and foreign strategic investors and listed their shares on both the Shanghai Stock Exchange and Hong Kong Stock Exchange.

Meanwhile, many Other National Commercial Banks and a number of city commercial banks have also introduced strategic investors, raised capital from shareholders to strengthen their capital bases, and successfully listed their shares on domestic or overseas stock exchanges. Similar to some of the Large Commercial Banks, they have also adopted international management practices and improved their asset quality and profitability.

CURRENT COMPETITIVE LANDSCAPE

China's banking institutions are generally categorized into Large Commercial Banks, Other National Commercial Banks, city commercial banks, urban credit cooperatives, rural financial institutions, foreign financial institutions and other banking institutions. The following table sets forth the total amounts of and market shares by total assets, shareholders' equity and net profit of different categories of financial institutions in China as of or for the year ended December 31, 2009.

	At and for the year ended December 31, 2009						
	Number of legal entity institutions	Total assets		Shareholders' equity		Net profit	
		Total amount	Market share (%)	Total amount	Market share (%)	Total amount	Market share (%)
	(in billions of RMB, except numbers of institutions and percentages)						
Large Commercial Banks	5	40,089	50.9%	2,186	49.3%	400	59.9%
Other National Commercial Banks	12	11,785	15.0	563	12.7	93	13.8
City commercial banks	143	5,680	7.2	359	8.1	50	7.4
Urban credit cooperatives	11	27	0.0	2	0.0	0	0.0
Rural financial institutions(1)	3,467	8,638	11.0	431	9.7	51	7.7
Foreign financial institutions(2)	37	1,349	1.7	167	3.8	6	1.0
Other banking institutions(3)	182	11,201	14.2	725	16.4	68	10.2
Total	**3,857**	**78,769**	**100.0%**	**4,434**	**100.0%**	**668**	**100.0%**

Sources: CBRC 2009 annual report

(1) Rural financial institutions refer to rural credit cooperatives, rural commercial banks, rural cooperative banks, township banks, loan companies and rural mutual cooperatives. The data of total assets, shareholders' equity and net profit, along with the respective market shares of rural financial institutions in this table only include those of rural credit cooperatives, rural commercial banks and rural cooperative banks.

(2) Foreign financial institutions refer to branches and locally incorporated subsidiaries and joint-venture banks of foreign banks.

(3) Other banking institutions refer to policy banks, financial asset management companies, trust companies, finance companies, financial leasing companies, automobile finance companies, money brokerage firms and Postal Savings Bank of China. The data of total assets, shareholders' equity and net profit, along with the respective market shares of other banking institutions in this table only include those of policy banks, trust companies, finance companies, financial leasing companies, automobile finance companies, money brokerage firms and Postal Savings Bank of China.

Large Commercial Banks

We, together with Bank of China, Bank of Communications, China Construction Bank and Industrial and Commercial Bank of China, are the major source of financing for China's corporations, institutions and individuals. According to the 2009 annual report of the CBRC, the Large Commercial Banks together accounted for 50.9% of the total assets of all banking institutions in China at December 31, 2009. According to the 2009 annual reports of the CBRC and the Large Commercial Banks, the Large Commercial Banks together accounted for 50.4% of the total loans and 56.1% of the total deposits of all banking institutions in China at December 31, 2009.

The following table sets forth the total number of domestic branch outlets, total assets, total loans and total deposits of the Large Commercial Banks.

	At December 31, 2009						
	Total number of domestic branch outlets	Total assets		Total loans		Total deposits	
		Amount	% of total	Amount	% of total	Amount	% of total
	(in billions of RMB, except numbers of institutions and percentages)						
Agricultural Bank of China	23,624	8,883	21.0%	4,138	19.3%	7,498	21.8%
Industrial and Commercial Bank of China	16,232	11,785	27.8	5,729	26.7	9,771	28.5
China Construction Bank	13,384	9,623	22.7	4,820	22.5	8,001	23.3
Bank of China	9,988	8,752	20.7	4,910	22.9	6,685	19.5
Bank of Communications	2,761	3,309	7.8	1,839	8.6	2,372	6.9
Total	**65,989**	**42,352**	**100.0%**	**21,436**	**100.0%**	**34,327**	**100.0%**

Source: 2009 annual reports of the Large Commercial Banks, except for our Bank's data

Other National Commercial Banks

As of December 31, 2009, 12 Other National Commercial Banks had been granted licenses to engage in nationwide commercial banking activities in China and together accounted for 15.0% of the total assets, 12.7% of the total shareholders' equity and 13.8% of the total net profit of all banking institutions in China.

City Commercial Banks and Urban Credit Cooperatives

City commercial banks and urban credit cooperatives are in general permitted to engage in commercial banking activities within their respective designated geographic areas. Some of the city commercial banks have established cross-region branches operating in other cities. As of December 31, 2009, there were 143 city commercial banks and 11 urban credit cooperatives in China. These two categories of financial institutions together accounted for 7.2% of the total assets, 8.1% of the total shareholders' equity and 7.4% of the total net profit of all banking institutions in China.

Rural Financial Institutions

Rural financial institutions consist mainly of rural credit cooperatives, rural commercial banks, rural cooperative banks, township banks, loan companies and rural mutual cooperatives. Compared with Large Commercial Banks and Other National Commercial Banks, they provide a limited range of banking products and services to enterprises and residents in the County Areas, including retail deposits and loans and settlement services. Since the end of 2006, the CBRC has introduced a series of policies and measures to encourage the establishment of non-traditional rural financial institutions such as township banks, loan companies and rural mutual cooperatives in the County Areas. As of December 31, 2009, there were 3,056 rural credit cooperatives, 43 rural commercial banks, 196 rural cooperative banks, 148 township banks, eight loan companies and 16 rural mutual cooperatives, accounting for together 11.0% of the total assets, 9.7% of the total shareholders' equity and 7.7% of the total net profit of all banking institutions in China.

Foreign Financial Institutions

Foreign financial institutions include representative offices of foreign-owned and joint-venture banks and branches and locally incorporated subsidiaries of foreign banks. Foreign banks in China were initially subject to certain restrictions on RMB-denominated businesses in terms of geographic presence and customer segment, which were lifted at the end of 2006. As of December 31, 2009, 194 banks from 46 foreign jurisdictions had opened representative offices in China while 33 foreign-owned banks had incorporated in China. At and for the year ended December 31, 2009, foreign financial institutions together accounted for 1.7% of the total assets, 3.8% of the total shareholders' equity and 1.0% of the total net profit of all banking institutions in China.

Other Banking Institutions

Other banking institutions include policy banks, financial asset management companies, trust companies, finance companies, financial leasing companies, automobile finance companies, money brokerage firms and Postal Savings Bank of China. At and for the year ended December 31, 2009, these banking institutions together accounted for 14.2% of the total assets, 16.4% of the total shareholders' equity and 10.2% of the total net profit of all banking institutions in China.

INDUSTRY TRENDS

Enhanced Industry Fundamentals

Since 2003, the transformation of state-owned commercial banks into joint stock commercial banks has had a profound effect on the reform and development of the banking industry in China. Since then, the China banking sector has witnessed significant improvement in corporate governance, risk management, capital strength, profitability, branding and market recognition. From 2005 to 2009, according to the 2009 annual report of the CBRC, the total assets of the banking institutions in China increased by RMB41.3 trillion, representing a CAGR of 20.4%, while shareholders' equity increased by RMB2.8 trillion, representing a CAGR of 27.8%. The asset quality of the banking institutions in China also improved significantly. During the same period, non-performing loans of commercial banks in China decreased from RMB1,313 billion to RMB497 billion and their non-performing loan ratio decreased from 8.61% to 1.58%. In the recent global financial crisis, China's banking sector was in general not materially affected, and, as of the end of 2009, Industrial and Commercial Bank of China, Bank of China and China Construction Bank were ranked among the top global banks in terms of market capitalization.

The following table sets forth the non-performing loan ratios and allowance to non-performing loans of the Large Commercial Banks and Other National Commercial Banks from 2005 to 2009.

	At December 31,				
	2005	2006	2007	2008	2009
	(in percentages)				
Non-performing loan ratio(1)	8.9%	7.5%	6.7%	2.4%	1.6%
Allowance to non-performing loans(2)	24.8%	34.3%	39.2%	117.9%	155.4%

Source: CBRC

(1) Calculated by dividing non-performing loans and advances to customers by total loans and advances to customers.
(2) Calculated by dividing the allowance for impairment losses on total loans and advances by total non-performing loans and advances to customers.

Enhanced Regulation and Supervision

China's banking regulators have established and continue to improve a prudent regulatory framework, and at the same time, continue to push forward China's financial reforms in numerous areas such as corporate governance, internal control, compliance and risk management. In particular, regulations have strengthened information disclosure requirements and coordination and cooperation with domestic and foreign regulators.

Following the global financial crisis in 2008, the CBRC has reinforced its policy objectives towards (i) prudential supervision and (ii) counter-cyclical regulation.

- *Prudential supervision*: the CBRC promulgated rules and regulations to guide commercial banks to further improve their risk management systems and establish effective protocols to prevent excessive exposure to high-risk markets and industries. The regulatory measures covered a full range of potential risks including credit, market, operational and liquidity risks.
- *Counter-cyclical regulation*: the CBRC also promulgated guidelines aimed at encouraging commercial banks to better address the lending needs generated by the growing economy while effectively managing potential risks. Specific measures include encouraging the extension of acquisition loans and specialized management of lending to small businesses, broadening industry scope for project financing and promoting innovative credit guarantee and consumer loan insurance arrangements.

As part of its prudential supervision, the CBRC has promulgated a series of regulations and guidelines in accordance with Basel II to strengthen commercial banks' capital management capabilities. These regulations and guidelines relate to, among others, capital adequacy ratio disclosure, capital measurement and risk exposure calculations.

Substantial and Rapid Growth of Banking Business in the County Areas

Driven by China's fast-paced urbanization and industry migration to the County Areas, the County Area economy has grown rapidly and become increasingly important to China's overall economy over the past decade. The County Areas accounted for 95.2% of China's total landmass and 69.8% of China's total population as of December 31, 2008 and 49.6% of China's total GDP in 2008.

The rapid growth of the County Area economy and the favorable policies implemented by the PRC government have in recent years spurred a fast-growing County Area banking market. However, the penetration rate in the County Area banking market remains relatively low, which represents significant growth potential. In this context, certain Large Commercial Banks and foreign banks have intensified their market expansion efforts in the County Areas. In the meantime, non-traditional rural financial institutions have grown rapidly. As of December 31, 2009, 172 non-traditional rural financial institutions had been established in China. According to the CBRC, as of December 31, 2008, the total outstanding loans of all County Area financial institutions amounted to RMB5,996.6 billion, representing 18.7% of the total loans of all banking institutions in China. The CAGR of the County Area loans reached 16.0% between 2005 and 2008, exceeding the national rate of 15.7% during the same period. See "County Area Banking Business—Strategic Position of the County Area Market—Substantial Growth Potential of County Area Economy—Favorable State Policies" and "Supervision and Regulation—Supervision and Regulation of Agriculture-related Financial Services."

Increasing Demand for Retail Banking Products and Services

Due to rising household income and the resulting life-style change and consumption upgrade, residential mortgage loans, bank cards and other consumer finance products as well as wealth management services have become major growth drivers for Chinese commercial banks. Retail banking is presented with significant growth opportunities associated with increasing consumer demand for more diversified banking products and services. The following table sets forth China's GDP per capita, selected household income and the Large Commercial Banks' retail loan data for the periods indicated.

	At and for the year ended December 31,					
	2005	**2006**	**2007**	**2008**	**2009**	**CAGR**
GDP per capita (in RMB)	14,144	16,456	20,117	23,648	25,125	15.4%
Per capita disposable income of urban households (in RMB)	10,493	11,759	13,786	15,781	17,175	13.1
Per capita net income of County Area households (in RMB)	3,255	3,587	4,140	4,761	5,153	12.2
Large Commercial Banks' retail loan balance (in billions of RMB)	1,944	2,229	2,872	3,124	4,543	23.6%
Large Commercial Banks' retail loans as percentage of their total loans	16.8%	17.1%	19.4%	19.4%	21.2%	—

Sources: NBSC, annual reports of the Large Commercial Banks

In addition to traditional retail banking, a new market for wealth management services has emerged as a result of the rapid increase in household wealth and an expanding class of wealthy individuals. Commercial banks have started to offer customized and professional wealth management services to mid- to high-end customers, such as asset allocation, dynamic wealth management and corporate finance advisory services. Following the establishment of private banking business by several foreign banks, domestic commercial banks have also set up their own private banking departments and started to increase their market penetration in private banking services to high net worth individuals.

Expanding Beyond Traditional Commercial Banking Business

In addition to growing traditional banking products and services, the PRC financial services industry has in recent years expanded financial product and service offerings in areas such as financial leasing, fund management and insurance. As of December 31, 2008, seven Chinese commercial banks had jointly invested in or established financial leasing subsidiaries and eight Chinese commercial banks, including us, have established fund management subsidiaries. As of December 31, 2008, bank-owned fund management companies commanded a market share of 12.4% in terms of the total net assets under management in China.

Historically, banks in China were prohibited from underwriting insurance products and services. In November 2009, the CBRC promulgated the *Pilot Administrative Measures for Commercial Banks to Make Equity Investments in Insurance Companies*, permitting commercial banks to invest in the insurance industry. Currently, the PRC government is seeking to establish a mechanism for coordinating regulatory supervision in this regard among the PBOC, MOF, CBRC, CSRC, CIRC and other financial regulators.

As banks continue to expand their financial product and service offerings in non-traditional areas, cross-selling financial products across a bank's integrated branch network and electronic banking has become an important way for banks to increase their fee and commission income. In 2009, according to the information made publicly available by China's 14 listed banks, total fee and commission income of these banks accounted for 16.3% of their total income, compared to 6.4% in 2005. However, this is still substantially lower than more mature overseas banking markets and is expected to increase as domestic banks continue to expand their fee- and commission-based product and service offerings to meet the demand of increasingly sophisticated corporate and retail customers. Accordingly, it is expected that the fee- and commission-based businesses of China's banks will have significant growth potential.

Achieving Competitive Differentiation through Customer Segmentation and Process Reengineering

As China's banks continue to expand the scope and scale of their business, their ability to offer differentiated services to meet customers' diversified banking needs has become an increasingly important part of their core competitiveness.

To promote their competitive differentiation, China's banks have taken various measures including: (i) engaging in market segmentation, defining target customer groups and customizing service offerings; (ii) revamping business models to gain competitive advantages in terms of cost control, quality and customer satisfaction, and (iii) promoting brand awareness.

In addition, China's banks have initiated the reengineering of their management and business processes. Some banks have also (i) established dedicated business units and intensified their marketing efforts to provide customers with one-stop tailored products and services; (ii) further streamlined their credit approval processes and implemented vertical risk management; and (iii) centralized back office management to improve efficiency and reduce operating costs. For example, all Large Commercial Banks have established independent operational management departments and data centers as well as processing and settlement centers.