***The following discussion and analysis should be read in conjunction with our consolidated financial statements at and for the years ended December 31, 2009, 2008 and 2007, together with the accompanying notes, included in Appendix I to this prospectus. Our consolidated financial statements have been prepared in accordance with IFRS. Capital adequacy ratios discussed in this section are calculated in accordance with applicable CBRC guidelines and are based on our consolidated financial statements prepared in accordance with PRC GAAP.***

## OVERVIEW

We are a leading commercial bank in China in terms of total assets, total loans and total deposits, with the largest domestic distribution network among the Large Commercial Banks in terms of the number of branch outlets and ATMs. As of December 31, 2009, we had 23,624 domestic branch outlets and 41,011 ATMs. We have also expanded internationally and have opened branches in Hong Kong and Singapore and representative offices in New York, London, Tokyo, Frankfurt, Seoul and Sydney. As of December 31, 2009, we had approximately 2.6 million corporate customers and approximately 320 million retail customers. At December 31, 2009, we had total assets of RMB8,882.6 billion, total gross loans of RMB4,138.2 billion, total deposits from customers of RMB7,497.6 billion, and shareholders' equity of RMB342.9 billion. In 2009, we were ranked No. 8 in *The Banker's* "Top 1000 World Banks" list in terms of profit before tax for the year of 2008.

## FINANCIAL IMPACT OF OUR RESTRUCTURING

We initiated a restructuring in October 2008 that has had and is expected to continue to have a significant impact on our results of operations and financial condition. For a description of our financial restructuring, see "Our History, Restructuring and Operational Reform—Financial Restructuring" and Note II to our consolidated financial statements included in the Accountants' Report in Appendix I to this prospectus. The table below sets forth the impact of our financial restructuring on our shareholders' equity at December 31, 2008.

| | Amount |
|---|---|
| | (in millions of RMB) |
| Huijin capital contribution | 130,000 |
| Equity contribution from the disposal of non-performing loans and impaired assets | 760,665 |
| Revaluation surplus on assets | 50,992 |
| Capitalization of reserves | 34,497 |
| **Total** | **976,154** |

As part of our financial restructuring, the MOF retained RMB130.0 billion in our then existing capital, appraised based on our net assets at December 31, 2007, and Huijin made a capital contribution of approximately US$19.0 billion (equivalent to RMB130.0 billion).

On November 21, 2008, upon the approval by the MOF, we disposed of non-performing loans in an aggregate amount of RMB766.8 billion, consisting of RMB217.3 billion in loans classified as doubtful and RMB549.5 billion in loans classified as loss, and other impaired assets in an aggregate amount of RMB48.9 billion, at their book value (before the related allowance for impairment losses) at December 31, 2007, to the MOF on a non-recourse basis. A portion of these non-performing loans and impaired assets were used to offset a loan of RMB150.6 billion from the PBOC. The remainder of these non-performing loans and impaired assets were exchanged for a receivable from the MOF in an aggregate principal amount of RMB665.1 billion, which started to accrue interest at an annual rate of 3.3% on January 1, 2008. As a result of the disposal, the related allowance for impairment losses in an aggregate amount of RMB760.7 billion was released and credited to our capital reserve.

A co-managed fund was set up and is jointly managed by the MOF and us to pay us the principal of and the interest accrued on the receivable from the MOF within 15 years. The assets held in this fund are owned by the MOF. The funding sources of the co-managed fund include (i) corporate income tax paid by us to the PRC central government during the life of this co-managed fund, (ii) cash dividends distributed by us to the MOF during the life of this co-managed fund, (iii) cash proceeds, net of related expenses, from the disposal of the non-performing loans and impaired assets which we disposed of to the MOF in connection with our financial restructuring, (iv) proceeds, which are allocated to this co-managed fund, from the sale by the MOF of our shares, (v) other funds allocated by the MOF or other PRC government agencies and (vi) interest income from the funds deposited in this co-managed account.

The MOF will make payments of the principal of and the interest on the MOF receivable in installments according to schedules varying depending upon the funding sources. For funding sources (i) and (ii) above, the MOF will generally make payments to us on an annual basis. For funding source (iii), the MOF will make payments to us on a quarterly basis. For other funding sources, the MOF will make payments to us after the funds from these funding sources become available. In the event that the funds from this co-managed fund are insufficient to repay the outstanding principal of and interest accrued on the MOF receivable by December 31, 2022, the MOF will, upon consultation with us and approval by the State Council, adopt measures, including extending the life of the co-managed fund and providing financial support, to settle the remainder of the amounts due on the MOF receivable.

We are authorized by the MOF to act as its agent to manage, dispose of and recover the non-performing loans and other impaired assets together with the corresponding interest receivables, for which services we charge agency commissions pursuant to the arrangements we have entered into with the MOF.

On January 15, 2009, we were incorporated as a joint stock limited liability company with a total registered capital of RMB260.0 billion. Upon our incorporation, our registered capital was divided into 260.0 billion shares, with par value of RMB1.00 each, with the MOF and Huijin each holding 50% of our shares immediately following our incorporation.

## GENERAL FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our asset quality, financial condition and results of operations have been and will continue to be influenced by China's economic condition and the conditions of the global economy and financial markets.

### China's Economic Condition

Our results of operations and financial condition are significantly affected by China's economic condition and the economic measures undertaken by the PRC government. China has experienced a 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 into a more market-based economy. From 2005 to 2009, China's nominal GDP grew at a CAGR of 16.0%, and fixed asset investments increased at a CAGR of 26.2%, according to the NBSC. In addition, total RMB-denominated loans and foreign currency-denominated loans increased at CAGRs of 19.7% and 26.0%, respectively, from 2005 to 2009, according to the PBOC. The growth of China's economy has led to increased corporate activity as well as significant increases in personal wealth, with per capita annual disposable income in the Urban Areas and in the County Areas increasing at CAGRs of 13.1% and 12.2%, respectively, from 2005 to 2009. Increased levels of corporate activities and personal wealth have generally led to a rapid growth in the banking business in China. The continued rural development and urbanization process has led to a significant increase in demand for banking products and services in the County Areas, including vast rural areas.

In recent years, the PRC government has implemented a series of macroeconomic and monetary policies, which included, among others, changing the benchmark interest rates and the PBOC statutory deposit reserve ratio applicable to commercial banks, imposing lending limits on commercial banks that had the effect of restricting loan growth, implementing stimulus measures to boost the residential property market or imposing restrictions to cool down the overheating of the property market which had the effect of increasing or restricting residential mortgage loans and loans to property developers, and releasing industry development guidelines to promote growth in certain industries or control the overheating and overcapacity in certain other industries. In addition, the PRC government has implemented a series of policies to promote growth in the rural economy and development of the agricultural sector, including, among other things, increasing subsidies to farmers and removing certain taxes and levies applicable to them, increasing investments in public utilities and infrastructure in rural areas and expanding social welfare coverage for the rural population. These macroeconomic and monetary policies and rural development measures have significant impact on our lending activities, business growth, results of operations and financial condition, and may provide significant opportunities to our business growth.

The onset of the global financial crisis triggered by the bankruptcy of Lehman Brothers in September 2008 led to a rapid deterioration of the global macroeconomic environment and a sharp decrease in economic activity. In response to the adverse impact of the global financial crisis on China's economy, beginning in September 2008, the PRC government implemented expansionary macroeconomic measures and moderately loose monetary policy. The PBOC lowered the benchmark interest rates on RMB-denominated loans and deposits and the statutory deposit reserve ratio several times in the third and fourth quarters of 2008. In addition, the PRC government announced a RMB4 trillion (US$586 billion) economic stimulus package in November 2008 to boost domestic demand and increase investments in infrastructure in an effort to achieve a continued economic growth. The stimulus package comprised of a number of policy initiatives, including, among other things, rural development programs such as the promotion of consumer electronics and home appliance sales in rural areas, an increase in investments in infrastructure projects, and technology upgrading in major industrial sectors.

These measures have been an impetus to the recovery of China's economy with the effect of increasing bank lending activities and the liquidity of the financial markets. According to the NBSC, in 2009, China's GDP grew by 8.7%, and fixed assets investments grew by 30.1% (an increase from 25.5% in 2008). The real growth rate of consumer spending was 16.9% in 2009, an increase from 14.8% in 2008.

Bank lending grew at a fast rate in 2009. According to data released by the NBSC, China's broad money supply (M2) increased by 27.7% in 2009 and bank loan balances increased by RMB10.6 trillion to RMB42.6 trillion at the end of 2009, setting a historical high. The overall increase in bank loans has had a positive effect on banks' non-performing loan ratios while imposing strains on the capital adequacy status of many banks. Increased lending also requires additional loan loss provisions and gives rise to a need to further strengthen risk management. The narrowing interest spread resulting from the loose monetary policy has depressed net interest margin and adversely affected net profits of many banks, including us. Partly driven by the improving general economic condition and increased liquidity, China's capital markets have picked up, although significant price fluctuations continue to raise pressures on the sustainability of the recovery of China's capital markets. Considering all the foregoing factors, while China's economy has shown signs of improvements, the macroeconomic outlook remains challenging. In January, February and May 2010, the PBOC increased the deposit reserve ratio applicable to banks in China to restrain the growth in money supply, although a moderately loose monetary policy has continued.

**Interest Rate Environment**

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 maximum rates. RMB-denominated deposits are subject to maximum rates set by the PBOC, but generally are not subject to minimum rates. The PBOC also abolished limits on interest rates on inter-bank deposits in 2005 and, as a result, interest rates on inter-bank deposits became market-based and have increasingly moved in line with interest rates on inter-bank placements.

Adjustments to benchmark rates have significantly affected the interest rates for loans and deposits, which in turn have had an impact on the net interest income of PRC banks. In 2006 and 2007, to implement tightened monetary policies to cool down the overheated economy, the PBOC raised the benchmark rates on RMB-denominated loans eight consecutive times and the benchmark rates on RMB-denominated deposits seven consecutive times. In the wake of the global financial crisis and economic downturn, to implement the moderately loose monetary policy to boost the domestic economy, the PBOC lowered the benchmark rates on RMB-denominated loans five consecutive times in the third and fourth quarters of 2008 and the benchmark rates on RMB-denominated deposits four consecutive times in the fourth quarter of 2008. In October 2008, the PBOC also announced a policy to permit qualified residential mortgage loans to be priced below the applicable benchmark lending rates by up to 30% and the minimum down payments for qualified home buyers to be lowered to 20% of the purchase price. These changes have resulted in the narrowing of the net interest spread, a decline in the net interest margin and a decrease in the net interest income of PRC commercial banks, including us, in 2009, which adversely affected our profitability. We expect the current interest rate levels will continue to present challenges to our net interest income and results of operations.

In addition, we also expect competition to continue to play an increasingly important role in the determination of interest rates as the PRC government continues its policy of interest rate liberalization for loans and deposits.

**Exchange Rate Environment**

The value of the Renminbi is subject to changes in the PRC's political and economic conditions. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong dollars and U.S. dollars, has been based on rates set by the PBOC. From 1994 to July 20, 2005, the official exchange rate for the conversion of Renminbi to U.S. dollars was generally stable. On July 21, 2005, the PBOC changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar and permitted the Renminbi to fluctuate within a narrow band against a basket of foreign currencies, including the U.S. dollar. This change in policy resulted in a 2% appreciation of the Renminbi against the U.S. dollar on the same day. In August 2008, China announced a further change in its exchange regime to a managed floating exchange rate regime based on market supply and demand. However, there still remains significant international pressure on the PRC government to adopt an even more flexible currency policy.

**Development of China's Capital Markets**

The regulation of the PRC's banking industry has been evolving and the PBOC and CBRC have taken initiatives to gradually allow the development and introduction of new fee- and commission-based banking services and new financial instruments that banks may offer or in which they may invest. For example, the PBOC and the CBRC have permitted the issuance of and promoted the gradual development of a market for commercial paper. In addition, the discounted bills market has also grown rapidly in recent years. This has affected part of our lending business, as certain borrowers have replaced higher-cost loans with relatively lower-cost discounted bills and commercial paper. On the other hand, these and other developments in the PRC's capital markets, such as the growth of investment and similar funds, have allowed us to expand our fee- and commission-based business, including underwriting of commercial paper and wealth management services, such as the distribution of mutual funds and other investment products. The development of China's capital markets has also broadened the scope of our investment securities into a range of new products, such as corporate bonds and asset-backed securities, which generally offer higher yields than our more traditional investments, such as PBOC bills.

**The Competitive Landscape in the PRC Banking Industry**

The market-oriented liberalization in recent years has led to an increased level of competition in the PRC banking industry. We face competition from other PRC commercial banks, including the other Large Commercial Banks and Other National Commercial Banks, city commercial banks, rural financial institutions and foreign financial institutions. Many other PRC commercial banks compete with us in substantially the same markets for loan, deposit and fee business. Furthermore, following the removal of regulatory restrictions on their geographical presence, customer base and operating license in China by December 2006 as part of China's WTO accession commitments, we have experienced increased competition from foreign banks operating in China. In addition, the Closer Economic Partnership Arrangement signed by the PRC and Hong Kong governments has eased certain restrictions on the banking businesses that Hong Kong banks can undertake in mainland China, including permitting Hong Kong banks to provide Renminbi banking services earlier than foreign banks. Greater participation by foreign banks will further increase the competition in China's banking industry. The increased competition affects the pricing of our loans and deposits, as well as the pricing of and the income from our fee- and commission-based services.

We may also face competition for funding from other forms of investment alternatives as the PRC capital markets continue to develop. For example, when China's stock markets saw a bullish rise in 2006 and 2007, the growth in our time deposits from customers slowed down, reflecting their preference for alternative investments to seek higher returns.

## RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

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

| | For the year ended December 31, | | |
|---|---|---|---|
| | 2007 | 2008 | 2009 |
| | (in millions of RMB) | | |
| Interest income | 250,035 | 321,855 | 296,147 |
| Interest expense | (85,852) | (121,852) | (114,508) |
| **Net interest income** | 164,183 | 200,003 | 181,639 |
| Net fee and commission income | 22,995 | 23,798 | 35,640 |
| Other net income(1) | (3,727) | (9,785) | 6,358 |
| **Operating income** | 183,451 | 214,016 | 223,637 |
| Operating expenses(2) | (74,620) | (110,175) | (109,567) |
| Provisions for impairment losses | (30,574) | (51,478) | (40,142) |
| Share of losses of an associate | — | (14) | — |
| **Profit before tax** | 78,257 | 52,349 | 73,928 |
| Income tax expense | (34,470) | (896) | (8,926) |
| **Net profit** | **43,787** | **51,453** | **65,002** |

(1) Consists primarily of net trading gain/(loss), net gain/(loss) on financial instruments designated as at fair value through profit or loss, net gain/(loss) on investment securities and other net operating income/(expense).

(2) Consists primarily of staff costs, general operating and administrative expenses, depreciation and amortization and business tax and surcharges.

Our net profit increased by 26.3% to RMB65.0 billion for the year ended December 31, 2009 compared to RMB51.5 billion for the year ended December 31, 2008, primarily due to (i) a significant increase in net fee and commission income, (ii) an increase in other net income and (iii) decreases in provisions for impairment losses on assets and operating expenses, partially offset by a decrease in net interest income and an increase in income tax expense.

Our net profit increased by 17.5% to RMB51.5 billion for the year ended December 31, 2008 compared to RMB43.8 billion for the year ended December 31, 2007, primarily due to an increase in net interest income and a decrease in income tax expense, partially offset by increases in operating expense and provisions for impairment losses on assets.

### Net Interest Income

Net interest income is the largest component of our operating income, representing 81.2%, 93.5% and 89.5% of our operating income for the years ended December 31, 2009, 2008 and 2007, 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, | | |
|---|---|---|---|
| | 2007 | 2008 | 2009 |
| | (in millions of RMB) | | |
| Interest income | 250,035 | 321,855 | 296,147 |
| Interest expense | (85,852) | (121,852) | (114,508) |
| **Net interest income** | **164,183** | **200,003** | **181,639** |

Our net interest income decreased by 9.2% to RMB181.6 billion in 2009 compared to RMB200.0 billion in 2008, primarily due to an 8.0% decrease in interest income. Our net interest income increased by 21.8% to RMB200.0 billion in 2008 compared to RMB164.2 billion in 2007, primarily due to a 28.7% increase in interest income, which was partially offset by a 41.9% increase in interest expense.

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) or average costs (for liabilities). The average balances of interest-earning assets and interest-bearing liabilities are the average of the daily balances. The average balances of non-interest-earning assets, non-interest-bearing liabilities and the allowance for impairment losses are the average of the balances at January 1, and December 31, for the years ended December 31, 2009, 2008 and 2007.

| | For the year ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2007 | | | 2008 | | | 2009 | | |
| | Average balance | Interest income | Average yield | Average balance | Interest income | Average yield | Average balance | Interest income | Average yield |
| | (in millions of RMB, except percentages) | | | | | | | | |
| **Assets** | | | | | | | | | |
| Loans to customers, total | 3,362,330 | 184,393 | 5.48% | 3,023,505 | 216,320 | 7.15% | 3,727,928 | 195,717 | 5.25% |
| Debt securities investments[(1)] | 1,303,575 | 47,056 | 3.61 | 2,098,327 | 78,979 | 3.76 | 2,476,586 | 75,290 | 3.04 |
| Non-restructuring-related debt securities | 1,210,275 | 40,338 | 3.33 | 1,339,934 | 50,332 | 3.76 | 1,729,908 | 51,569 | 2.98 |
| Restructuring-related debt securities[(2)] | 93,300 | 6,718 | 7.20 | 758,393 | 28,647 | 3.78 | 746,678 | 23,721 | 3.18 |
| Balances with central banks[(3)] | 708,826 | 12,274 | 1.73 | 1,036,069 | 18,683 | 1.80 | 1,217,240 | 18,611 | 1.53 |
| Amounts due from banks and other financial institutions[(4)] | 214,838 | 6,312 | 2.94 | 234,170 | 7,873 | 3.36 | 561,961 | 6,529 | 1.16 |
| **Total interest-earning assets** | **5,589,569** | **250,035** | **4.47%** | **6,392,071** | **321,855** | **5.03%** | **7,983,715** | **296,147** | **3.71%** |
| Allowance for impairment losses | (760,483) | | | (425,484) | | | (106,191) | | |
| Non-interest earning assets[(5)] | 208,439 | | | 256,827 | | | 355,616 | | |
| **Total Assets** | **5,037,525** | | | **6,223,414** | | | **8,233,140** | | |

| | For the year ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2007 | | | 2008 | | | 2009 | | |
| | Average balance | Interest expense | Average cost | Average balance | Interest expense | Average cost | Average balance | Interest expense | Average cost |
| | (in millions of RMB, except percentages) | | | | | | | | |
| **Liabilities** | | | | | | | | | |
| Deposits from customers | 4,938,359 | 77,564 | 1.57% | 5,658,171 | 111,815 | 1.98% | 6,952,751 | 103,251 | 1.49% |
| Amounts due to banks and other financial institutions(6) | 355,110 | 7,691 | 2.17 | 380,000 | 9,589 | 2.52 | 615,411 | 10,068 | 1.64 |
| Other interest-bearing liabilities(7) | 18,071 | 597 | 3.30 | 21,235 | 448 | 2.11 | 35,262 | 1,189 | 3.37 |
| **Total interest-bearing liabilities** | **5,311,540** | **85,852** | **1.62%** | **6,059,406** | **121,852** | **2.01%** | **7,603,424** | **114,508** | **1.51%** |
| Non-interest-bearing liabilities(8) | 356,403 | | | 319,501 | | | 333,493 | | |
| **Total liabilities** | **5,667,943** | | | **6,378,907** | | | **7,936,917** | | |
| **Net interest income** | | **164,183** | | | **200,003** | | | **181,639** | |
| **Net interest spread(9)** | | **2.85%** | | | **3.02%** | | | **2.20%** | |
| **Net interest margin(10)** | | **2.94%** | | | **3.13%** | | | **2.28%** | |

(1) Consists of debt securities at fair value through profit or loss, available-for-sale debt securities, held-to-maturity debt securities and debt securities classified as receivables.
(2) Consists of the MOF receivable and the special PRC government bond.
(3) Consists primarily of statutory deposit reserves and surplus deposit reserves.
(4) Consists primarily of deposits and placements with banks and other financial institutions and financial assets held under resale agreements.
(5) Consists primarily of cash, property and equipment, interest receivable, deferred tax assets and other assets.
(6) Consists primarily of deposits and placements from banks and other financial institutions and financial assets sold under repurchase agreements.
(7) Consists primarily of certificates of deposit issued and subordinated bonds issued.
(8) Consists primarily of interest payable, accrued staff costs, tax liabilities and other liabilities.
(9) Calculated as the difference between the average yield on total interest-earning assets and the average cost of total interest-bearing liabilities.
(10) Calculated by dividing net interest income by the average balance of total interest-earning assets.

The following table sets forth, for the years 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 volume.

| | For the year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2008 vs. 2007 | | | 2009 vs. 2008 | | |
| | 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 to customers, total | (24,242) | 56,169 | 31,927 | 36,982 | (57,585) | (20,603) |
| Debt securities investments[4] | 29,914 | 2,009 | 31,923 | 11,499 | (15,188) | (3,689) |
| Balances with central banks | 5,901 | 508 | 6,409 | 2,770 | (2,842) | (72) |
| Amounts due from banks and other financial institutions[5] | 650 | 911 | 1,561 | 3,808 | (5,152) | (1,344) |
| **Changes in interest income** | 12,223 | 59,597 | 71,820 | 55,059 | (80,767) | (25,708) |
| **Liabilities** | | | | | | |
| Deposits from customers | 14,225 | 20,026 | 34,251 | 19,225 | (27,789) | (8,564) |
| Amounts due to banks and other financial institutions[6] | 628 | 1,270 | 1,898 | 3,851 | (3,372) | 479 |
| Other interest-bearing liabilities[7] | 67 | (216) | (149) | 473 | 268 | 741 |
| **Changes in interest expense** | 14,920 | 21,080 | 36,000 | 23,549 | (30,893) | (7,344) |
| **Changes in net interest income** | **(2,697)** | **38,517** | **35,820** | **31,510** | **(49,874)** | **(18,364)** |

(1) Represents the average balance for the year minus the average balance for the previous year, multiplied by the average yield/cost for the 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 previous year.
(3) Represents interest income/expense for the year minus interest income/expense for the previous year.
(4) Consists of non-restructuring-related debt securities and restructuring-related debt securities.
(5) Consists primarily of deposits and placements with banks and other financial institutions and financial assets held under resale agreements.
(6) Consists primarily of deposits and placements from banks and other financial institutions and financial assets sold under repurchase agreements.
(7) Consists primarily of certificates of deposit issued and subordinated bonds issued.

### *Interest Income*

Our interest income decreased by 8.0% to RMB296.1 billion in 2009 compared to RMB321.9 billion in 2008, primarily due to a decrease in the average yield on our interest-earning assets, which was partially offset by an increase in the average balance of interest-earning assets. The decrease in the average yield primarily reflected the impact of the consecutive decreases in the PBOC benchmark rates in the second half of 2008.

Our interest income increased by 28.7% to RMB321.9 billion in 2008 compared to RMB250.0 billion in 2007, primarily due to an increase in the average yield on our interest-earning assets and, to a lesser extent, due to an increase in the average balance. The increase in the average yield was primarily attributable to (i) our restructuring-related disposal, through which the non-performing loans that accrued little interest were replaced by the MOF receivable (accruing interest from January 1, 2008 at an annual rate of 3.3%) and (ii) higher interest rate for loans made or repriced after the consecutive increases in PBOC benchmark rates in 2007.

*Interest Income from Loans to Customers*

Interest income from loans to customers is the largest component of our interest income, representing 66.1%, 67.2% and 73.7% of our interest income in 2009, 2008 and 2007, 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, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2007 | | | 2008 | | | 2009 | | |
| | Average balance | Interest income | Average yield | Average balance[(1)] | Interest income | Average yield | Average balance | Interest income | Average yield |
| | (in millions of RMB, except percentages) | | | | | | | | |
| Corporate loans | 2,625,127 | 147,905 | 5.63% | 2,355,370 | 171,825 | 7.30% | 2,680,216 | 154,493 | 5.76% |
| Discounted bills | 279,681 | 10,978 | 3.93 | 189,005 | 10,693 | 5.66 | 419,774 | 8,989 | 2.14 |
| Retail loans | 441,005 | 24,692 | 5.60 | 460,676 | 33,220 | 7.21 | 601,260 | 31,799 | 5.29 |
| Overseas and other operations[(2)] | 16,517 | 818 | 4.95 | 18,454 | 582 | 3.15 | 26,678 | 436 | 1.63 |
| **Total loans to customers** | **3,362,330** | **184,393** | **5.48%** | **3,023,505** | **216,320** | **7.15%** | **3,727,928** | **195,717** | **5.25%** |

(1) The average balance of our loans to customers in 2008 excludes RMB766.8 billion of non-performing loans disposed of in connection with our financial restructuring since January 1, 2008.

(2) Consists of loans to customers at our overseas branches and subsidiaries in and outside of China.

Interest income from the loans to customers decreased by 9.5% to RMB195.7 billion in 2009 compared to RMB216.3 billion in 2008, primarily due to a decrease in the average yield to 5.25% in 2009 compared to 7.15% in 2008, which was partially offset by an increase in the average balance. The decrease in the average yield on loans to customers was primarily due to (i) the consecutive decreases in the PBOC benchmark rates in the second half of 2008, which resulted in lower interest rates charged on loans made or repriced after such decreases and throughout 2009, (ii) weakened pricing power of PRC commercial banks under increased competition in the lending market as a result of the rapid growth in bank loans, and (iii) an increase in discounted bills, as a percentage of our total loan portfolio, particularly bank acceptance bills, which generally present relatively low credit risk and bear relatively lower interest rate.

Interest income from the loans to customers increased by 17.3% to RMB216.3 billion in 2008 compared to RMB184.4 billion in 2007, primarily due to an increase in the average yield to 7.15% in 2008 compared to 5.48% in 2007, which was partially offset by a decrease in the average balance. The increase in the average yield was primarily due to the relatively high interest rates on loans made or repriced in 2008, reflecting the impact of the consecutive increases in the PBOC benchmark rates in 2007. The decrease in the average balance resulted primarily from the restructuring-related disposal.

The largest component of our interest income from loans to customers has been interest income from corporate loans, representing 78.9%, 79.4% and 80.2% of our total interest income from loans to customers for the years ended December 31, 2009, 2008 and 2007, respectively.

*2009 Compared to 2008*. Interest income from corporate loans decreased by 10.1% to RMB154.5 billion in 2009 compared to RMB171.8 billion in 2008, primarily due to a decrease in the average yield on corporate loans to 5.76% in 2009 compared to 7.30% in 2008, which was partially offset by an increase in the average balance of corporate loans. The decrease in the average yield was primarily due to (i) the consecutive decreases in the PBOC benchmark rates in the second half of 2008, which resulted in lower interest rates charged on corporate loans made or repriced after such decreases and throughout 2009, and (ii) weakened pricing power of PRC commercial banks under increased competition in the lending market.

Interest income from our discounted bills decreased by 15.9% to RMB9.0 billion in 2009 compared to RMB10.7 billion in 2008, primarily due to a decrease in the average yield to 2.14% in 2009 compared to 5.66% in 2008, which was partially offset by an increase in the average balance to RMB419.8 billion in 2009 from RMB189.0 billion in 2008. The decrease in the average yield on discounted bills was primarily due to a significant decrease in the market interest rates for discounted bills as a result of the significantly increased liquidity in the market.

Interest income from our retail loans decreased by 4.3% to RMB31.8 billion in 2009 compared to RMB33.2 billion in 2008, primarily due to a decrease in the average yield to 5.29% in 2009 compared to 7.21% in 2008, which was partially offset by an increase in the average balance. The decrease in the average yield was primarily due to (i) the consecutive decreases in the PBOC benchmark rates in the second half of 2008, which resulted in lower interest rates charged on our retail loans made or repriced after such decreases and throughout 2009 and (ii) the effect of the PBOC's policy promulgated in October 2008, which permitted qualified residential mortgage loans to be priced below the applicable benchmark lending rate by up to 30% from 15% prior to the introduction of such policy, on the interest rates charged on our residential mortgage loans, the largest component of our retail loan portfolio.

Interest income from our loans to customers of our overseas and other operations decreased by 25.1% to RMB436 million in 2009 compared to RMB582 million in 2008, primarily due to a decrease in the average yield to 1.63% in 2009 compared to 3.15% in 2008, which was partially offset by an increase in the average balance. The decrease in the average yield was primarily due to decreases in the interest rates on loans made by our overseas branches and subsidiaries, reflecting the impact of the decreased LIBOR.

*2008 Compared to 2007*. Interest income from corporate loans increased by 16.2% to RMB171.8 billion in 2008 compared to RMB147.9 billion in 2007, primarily due to an increase in the average yield to 7.30% in 2008 compared to 5.63% in 2007, which was partially offset by a decrease in the average balance. The increase in the average yield on corporate loans was primarily attributable to (i) the disposal of non-performing loans, which accrued little interest, in connection with our financial restructuring in 2008, and (ii) the effect of the consecutive increases in the PBOC benchmark rates in 2007, which resulted in higher interest rates charged on loans newly made or repriced after such increases. The decrease in the average balance of corporate loans was primarily due to our restructuring-related disposal.

Interest income from discounted bills decreased by 2.6% to RMB10.7 billion in 2008 compared to RMB11.0 billion in 2007, primarily due to a decrease in the average balance, which was partially offset by an increase in the average yield to 5.66% in 2008 compared to 3.93% in 2007. The decrease in the average balance of discounted bills was primarily because we reduced our discounted bills portfolio in the first three quarters of 2008 to make our funds available for lending to our valued customers and key projects. The increase in the average yield reflected the high market interest rates in the first three quarters of 2008.

Interest income from our retail loans increased by 34.5% to RMB33.2 billion in 2008 compared to RMB24.7 billion in 2007, primarily due to an increase in the average yield to 7.21% in 2008 compared to 5.60% in 2007 and, to a lesser extent, due to an increase of the average balance. The increase in the average yield on retail loans was primarily due to (i) the consecutive increases in the PBOC benchmark rates in 2007, which resulted in increased interest rates on existing retail loans repriced in 2008, particularly residential mortgage loans which are usually repriced on January 1 of each year based on the prevailing PBOC benchmark rates, and (ii) the relatively high interest rates on our retail loans newly made in the first three quarters of 2008. The increase in the average balance of retail loans primarily reflected our continued marketing efforts with respect to retail loans, in particular with respect to residential mortgage loans, personal consumption loans and credit card balances, which was partially offset by our restructuring-related disposal.

Interest income from our loans to customers of overseas and other operations decreased by 28.9% to RMB582 million in 2008 compared to RMB818 million in 2007, primarily due to a decrease in the average yield to 3.15% in 2008 compared to 4.95% in 2007, which was partially offset by an increase in the average balance. The decrease in the average yield primarily reflected the impact of a decrease in LIBOR.

*Interest Income from Debt Securities Investments*

Interest income from debt securities investments is the second largest component of our interest income, representing 25.4%, 24.5% and 18.8% of our interest income for the years ended December 31, 2009, 2008 and 2007, respectively.

*2009 Compared to 2008*. Interest income from debt securities investments decreased by 4.7% to RMB75.3 billion in 2009 compared to RMB79.0 billion in 2008, primarily due to a decrease in the interest income from the restructuring-related debt securities, which was partially offset by an increase in the interest income from the non-restructuring-related debt securities. The decrease in the interest income from our restructuring-related debt securities in 2009 was primarily due to a combination of (i) a decrease in the average yield to 3.18% in 2009 compared to 3.78% in 2008, and (ii) a decrease in the average balance. The decrease in the average yield was primarily because the coupon rate on the special PRC government bond was reset to 2.25% from the previous rate of 7.2% per annum, effective December 1, 2008, as part of our financial restructuring. The increase in the interest income from our non-restructuring-related debt securities in 2009 was primarily due to an increase in the average balance, which was partially offset by a decrease in the average yield to 2.98% in 2009 compared to 3.76% in 2008. The increase in the average balance of non-restructuring-related debt securities was primarily due to our increased investments in debt securities based on our assessment of the macroeconomy and the debt market condition. The decrease in the average yield was primarily due to (i) the lower coupon rates on newly-acquired debt securities and the decreases in the applicable interest rates on the floating rate instruments as a result of the consecutive decreases in benchmark interest rates and the increased liquidity in the market, (ii) a decrease in interest rates for foreign currency-denominated debt securities as a result of the decreases in LIBOR since the second quarter of 2009, and (iii) our shortening of the duration of our debt securities investments when the market interest rates were at a relatively low level to reduce potential interest risk when interest rates are rising.

*2008 Compared to 2007*. Interest income from debt securities investments increased by 67.8% to RMB79.0 billion in 2008 compared to RMB47.1 billion in 2007, primarily due to an increase in the average balance and, to a lesser extent, due to an increase in the average yield to 3.76% in 2008 compared to 3.61% in 2007. The increase in the average balance was primarily attributable to (i) the receivable due from the MOF which started accruing interest from January 1, 2008, in connection with our restructuring-related disposal in 2008, and (ii) an increase in our holding of non-restructuring-related debt securities, primarily reflecting our increased funding. The increase in the average yield was primarily due to our increased investments in medium- and long-term debt securities in the first half of 2008 when the interest rates were at a relatively high level in the PRC debt market, partially offset by the reset of the interest rate on the special PRC government bond from 7.2% to 2.25% effective December 1, 2008.

*Interest Income from Balances with Central Banks*

Our interest-earning balances with central banks consist primarily of statutory deposit reserves and surplus deposit reserves with the PBOC. Statutory deposit reserves represent the minimum level of cash deposits, calculated as a percentage of the balance of our general deposits from customers, that we are required to maintain at the PBOC. Surplus deposit reserves are deposits with the PBOC, in excess of statutory deposit reserves which we maintain for settlement purposes.

Interest income from balances with central banks slightly decreased to RMB18.6 billion in 2009 compared to RMB18.7 billion in 2008, primarily due to a decrease in the average yield to 1.53% in 2009 compared to 1.80% in 2008, which was substantially offset by an increase in the average balance in line with the growth in the deposits from customers. The decrease in the average yield on balances with central banks primarily reflected the effect of a decrease in the interest rates on statutory deposit reserves from 1.89% to 1.62% and on surplus deposit reserves from 0.99% to 0.72% in November 2008.

Interest income from balances with central banks increased by 52.2% to RMB18.7 billion in 2008 compared to RMB12.3 billion in 2007, primarily due to an increase in the average balance and, to a lesser extent, due to an increase in the average yield to 1.80% in 2008 compared to 1.73% in 2007. The average balance increased by 46.2% to RMB1,036.1 billion in 2008 compared to RMB708.8 billion in 2007, primarily due to (i) the increase in deposits from customers, and (ii) the consecutive increases in the statutory deposit reserve ratio by the PBOC in 2007 and the first half of 2008. The increase in the average yield was primarily due to a decrease in surplus deposit reserves, which bear lower interest rates than statutory deposit reserves, as a percentage of our total balances with the central banks, as we strengthened our fund allocations and our liquidity management.

*Interest Income from Amounts Due from Banks and Other Financial Institutions*

Amounts due from banks and other financial institutions consist primarily of inter-bank deposits and placements and financial assets held under resale agreements.

Interest income from amounts due from banks and other financial institutions decreased by 17.1% to RMB6.5 billion in 2009 compared to RMB7.9 billion in 2008, primarily due to a decrease in the average yield to 1.16% in 2009 compared to 3.36% in 2008, which was substantially offset by an increase in the average balance. The decrease in the average yield was primarily due to a significant decrease in the market interest rates following the decreases in the PBOC benchmark rates and adequate liquidity in the market. The increase in the average balance was primarily due to our increased purchases of financial assets held under resale agreements to earn higher returns than certain of our other liquid assets as a result of an increase in our overall funding.

Interest income from amounts due from banks and other financial institutions increased by 24.7% to RMB7.9 billion in 2008 compared to RMB6.3 billion in 2007, primarily due to an increase in the average yield to 3.36% in 2008 compared to 2.94% in 2007 and, to a lesser extent, due to an increase in the average balance. The increase in the average yield primarily reflected relatively high interest rates in the inter-bank market in the first three quarters of 2008. The increase in the average balance was primarily due to (i) our placement of a portion of the proceeds from the Huijin capital injection of approximately US$19.0 billion (equivalent to RMB130.0 billion) to us in October 2008 in the inter-bank market, and (ii) our increased purchases of financial assets held under the resale agreements to earn higher returns than certain of our other liquid assets.

***Interest Expense***

Interest expense decreased by 6.0% to RMB114.5 billion in 2009 compared to RMB121.9 billion in 2008, primarily due to a decrease in the average cost on interest-bearing liabilities to 1.51% in 2009 compared to 2.01% in 2008, which was partially offset by an increase of 25.5% in the average balance of interest-bearing liabilities, in particular deposits from customers. Interest expense increased by 41.9% to RMB121.9 billion in 2008 compared to RMB85.9 billion in 2007, primarily due to an increase of 24.1% in the average cost from 1.62% in 2007 to 2.01% in 2008 on our interest-bearing liabilities and, to a lesser extent, due to an increase in the average balance of our interest-bearing liabilities from RMB5,311.5 billion in 2007 to RMB6,059.4 billion in 2008.

*Interest Expense on Deposits from Customers*

Deposits from customers are our primary source of funding. Interest expense on deposits from customers represented 90.2%, 91.8% and 90.3% of our total interest expense for the years ended December 31, 2009, 2008 and 2007, respectively.

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

| | For the year ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2007 | | | 2008 | | | 2009 | | |
| | Average balance | Interest expense | Average cost (%) | Average balance | Interest expense | Average cost (%) | Average balance | Interest expense | Average cost (%) |
| | (in millions of RMB, except percentages) | | | | | | | | |
| **Corporate deposits**[(1)] | | | | | | | | | |
| Time | 373,797 | 12,934 | 3.46% | 539,556 | 20,575 | 3.81% | 794,121 | 19,457 | 2.45% |
| Demand | 1,627,356 | 15,261 | 0.94 | 1,723,486 | 16,488 | 0.96 | 1,995,349 | 12,734 | 0.64 |
| Subtotal | 2,001,153 | 28,195 | 1.41 | 2,263,042 | 37,063 | 1.64 | 2,789,470 | 32,191 | 1.15 |
| **Retail deposits** | | | | | | | | | |
| Time | 1,550,076 | 37,756 | 2.44 | 1,888,934 | 64,587 | 3.42 | 2,344,697 | 64,486 | 2.75 |
| Demand | 1,387,130 | 11,613 | 0.84 | 1,506,195 | 10,165 | 0.67 | 1,818,584 | 6,574 | 0.36 |
| Subtotal | 2,937,206 | 49,369 | 1.68 | 3,395,129 | 74,752 | 2.20 | 4,163,281 | 71,060 | 1.71 |
| **Total deposits from customers** | **4,938,359** | **77,564** | **1.57%** | **5,658,171** | **111,815** | **1.98%** | **6,952,751** | **103,251** | **1.49%** |

(1) Consists of deposits from corporate customers, government authorities and other organizations as well as corporate deposits taken by our overseas branches and our subsidiaries in and outside of China.

*2009 Compared to 2008.* Interest expense on deposits from customers decreased by 7.7% to RMB103.3 billion in 2009 compared to RMB111.8 billion in 2008, primarily due to a decrease in the the average cost to 1.49% in 2009 compared to 1.98% in 2008, which was partially offset by an increase in the average balance. The decrease in the average cost on our customer deposits reflected the effect of the consecutive decreases in the PBOC benchmark rates in the fourth quarter of 2008, which resulted in lower interest rates on deposits taken or repriced after such decreases and throughout 2009. The increase in the average balance primarily reflected the overall growth of our business, the moderately loose monetary policy in the PRC and the continued increase in household income.

*2008 Compared to 2007.* Interest expense on deposits from customers increased by 44.2% to RMB111.8 billion in 2008 compared to RMB77.6 billion in 2007, primarily due to an increase in the average cost to 1.98% in 2008 compared to 1.57% in 2007 and, to a lesser extent, due to an increase in the average balance. The increase in the average cost was primarily due to (i) the cumulative effect of the consecutive increases in PBOC benchmark rates in 2007 and (ii) an increase in time deposits, as a percentage of our total customer deposits, to 42.9% in 2008 from 39.0% in 2007. The increase in the average balance reflected the preference of our customers for lower risk investments during the downturn of China's capital markets and following the suspension by the PRC tax authorities of levying tax on individuals' interest income.

*Interest Expense on Amounts Due to Banks and Other Financial Institutions*

Amounts due to banks and other financial institutions consists primarily of deposits and placements from banks and other financial institutions and financial assets sold under repurchase agreements.

Interest expense on amounts due to banks and other financial institutions increased by 5.0% to RMB10.1 billion in 2009 compared to RMB9.6 billion in 2008, primarily due to an increase in the average balance, which was partially offset by a decrease in the average cost to 1.64% in 2009 compared to 2.52% in 2008. The increase in the average balance was primarily due to an increase in deposits from banks and other financial institutions, in particular deposits for settlement and clearing purposes. The decrease in the average cost was primarily due to the significant decrease in the market interest rates as a result of the consecutive decreases in PBOC benchmark rates and increased liquidity in the market.

Interest expense on amounts due to banks and other financial institutions increased by 24.7% to RMB9.6 billion in 2008 compared to RMB7.7 billion in 2007, primarily due to an increase in the average cost to 2.52% in 2008 compared to 2.17% in 2007, coupled with an increase in the average balance. The increase in the average cost was primarily due to (i) an increase in the negotiated deposits from banks and other financial institutions which bear a relatively high interest rate, as a percentage of total amounts due to banks and other financial institutions, and (ii) the relatively high interest rates in the inter-bank market in the first three quarters of 2008. The increase in the average balance was primarily due to an increase in the deposits from domestic banks.

***Net Interest Spread and Net Interest Margin***

Net interest spread is the difference between the average yield on interest-earning assets and the average cost on interest-bearing liabilities. Net interest margin is the ratio of net interest income to the average balance of total interest-earning assets.

*2009 Compared to 2008.* Our net interest spread decreased to 2.20% in 2009 compared to 3.02% in 2008, because the average yield on our interest-earning assets decreased by 132 basis points compared to a decrease of 50 basis points in the average cost on our interest-bearing liabilities. Our net interest margin decreased to 2.28% in 2009 compared to 3.13% in 2008, because the average balance of interest-earning assets increased by 24.9% whereas our net interest income decreased by 8.0% in 2009. The decreases in our net interest margin and net interest spread were primarily due to a combination of (i) a decrease in the average yield on our loans, reflecting the effect of the consecutive decreases in the PBOC benchmark rates in the second half of 2008, (ii) a decrease in the average yield on our debt securities investments and other interest-earning assets, primarily due to the reset of the coupon rate on the special PRC government bond to 2.25% from the previous rate of 7.2% per annum, effective December 1, 2008, as part of our financial restructuring and the relatively low interest rates in the PRC money market and debt market in 2009, reflecting the increased liquidity as a result of the moderately loose monetary policy, and (iii) a smaller decrease in the average cost on our interest-bearing liabilities than the decrease in the average yield on our interest-earning assets, attributable to a relatively high proportion of demand deposits in our liabilities.

*2008 Compared to 2007.* Our net interest spread increased to 3.02% in 2008 compared to 2.85% in 2007, because the average yield on our interest-earning assets increased by 56 basis points, whereas the average cost on our interest-bearing liabilities increased by 39 basis points. Our net interest margin increased to 3.13% in 2008 compared to 2.94% in 2007, because our net interest income increased at a higher rate than the average balance of interest-earning assets. The increases in our net interest margin and net interest spread were primarily due to a combination of (i) an increase in the applicable interest rates on loans made or repriced after the consecutive increases in the PBOC benchmark rates, (ii) the restructuring-related disposal, which resulted in the replacement of the very low-yielding non-performing assets by the relatively higher-yielding receivable from the MOF and (iii) an increase in the average yields on our deposits and placements with banks and other financial institutions and debt securities, reflecting the increases in the market interest rates.

### Net Fee and Commission Income

Net fee and commission income represented 15.9%, 11.1% and 12.5% of our total operating income for the years ended December 31, 2009, 2008 and 2007, 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, | | |
|---|---|---|---|
| | 2007 | 2008 | 2009 |
| | (in millions of RMB) | | |
| **Fee and commission income** | | | |
| Settlement and clearing fees | 8,997 | 10,757 | 12,207 |
| Agency commissions | 8,536 | 5,484 | 10,737 |
| Bank card fees | 3,083 | 3,824 | 4,821 |
| Consultancy and advisory fees | 396 | 1,573 | 6,566 |
| Credit commitment fees | 577 | 829 | 772 |
| Electronic banking service fees | 360 | 728 | 1,221 |
| Custodian and other fiduciary service fees | 690 | 632 | 761 |
| Others | 1,282 | 967 | 200 |
| Subtotal | 23,921 | 24,794 | 37,285 |
| **Fee and commission expenses** | (926) | (996) | (1,645) |
| **Net fee and commission income** | **22,995** | **23,798** | **35,640** |

Our net fee and commission income increased by 49.8% to RMB35.6 billion in 2009 compared to RMB23.8 billion in 2008, primarily attributable to (i) our continuing efforts to grow our fee- and commission-based products and services and increase marketing efforts through our broad network to our customer base, (ii) the introduction of new products and services in the areas of consultancy and advisory services and electronic banking services, and (iii) the agency commissions from the MOF for our disposal of and recovery on non-performing assets on its behalf. Net fee and commission income increased by 3.5% to RMB23.8 billion in 2008 compared to RMB23.0 billion in 2007, primarily due to increases in settlement and clearing fees and consultancy and advisory fees, which were largely offset by a decrease in agency commissions earned on the distribution of investment fund products and other securities during the downturn of the PRC capital markets.

*Settlement and Clearing Fees*

Settlement and clearing fees consist primarily of fees earned on settlement and clearing services in respect of bank drafts, commercial drafts, promissory notes and checks and fees earned on money transfers and clearing services. Settlement and clearing fees increased by 13.5% to RMB12.2 billion in 2009 compared to RMB10.8 billion in 2008, which in turn increased by 19.6% compared to RMB9.0 billion in 2007, primarily due to increases in the transaction volume and the number of customers as a result of our continued marketing and product development efforts in respect of our settlement and cash management business and our efforts to provide value-added services to our customers.

*Agency Commissions*

Agency commissions consist primarily of fees earned on agency services we primarily provide to (i) the PRC central and local governments in respect of collection of government revenues and payment of government expenditures, (ii) the MOF in connection with the disposal of and recovery on non-performing assets and (iii) to other financial institutions in connection with distribution of insurance and mutual fund products and securities. Agency commissions increased by 95.8% to RMB10.7 billion in 2009 compared to RMB5.5 billion in 2008, primarily attributable to the commissions from our agency services for the MOF in connection with the disposal of and recovery on non-performing assets and from our agency services in respect of distribution of insurance products. Agency commissions decreased by 35.8% to RMB5.5 billion in 2008 compared to RMB8.5 billion in 2007, primarily due to a decrease in fees earned on the distribution of investment fund products and other securities during the downturn of the PRC capital markets.

*Bank Card Fees*

Bank card fees consist primarily of annual fees on our debit and credit cards and transaction fees from merchants on the use of our bank cards. Bank card fees increased by 26.1% to RMB4.8 billion in 2009 compared to RMB3.8 billion in 2008, which in turn increased by 24.0% compared to RMB3.1 billion in 2007. The overall increase in bank card fees from 2007 to 2009 was primarily due to an increase in the number of our bank cards issued and the increased transaction volumes in our bank cards as a result of our continued efforts to introduce new products and improve the functions of bank card products.

*Consultancy and Advisory Fees*

Consultancy and advisory fees consist primarily of fees earned on the underwriting of securities, our financial advisory services and the wealth management services for retail customers. Consultancy and advisory fees significantly increased to RMB6.6 billion in 2009 compared to RMB1.6

billion in 2008, which in turn experienced a rapid growth compared to RMB0.4 billion in 2007. The overall increase from 2007 to 2009 was primarily due to our efforts to grow our investment banking business.

*Credit Commitment Fees*

Credit commitment fees consist primarily of fees from issuing revocable and irrevocable credit commitments. Credit commitment fees decreased by 6.9% to RMB772 million in 2009 compared to RMB829 million in 2008, primarily due to a decrease in our fee rates driven by the increased market competition. Credit commitment fees increased by 43.7% to RMB829 million in 2008 compared to RMB577 million in 2007, primarily due to the continued growth of our loan commitment and bank acceptance bills business.

*Electronic Banking Service Fees*

Electronic banking service fees consist primarily of transaction fees from our telephone banking and Internet banking platforms. Electronic banking service fees increased by 67.7% to RMB1.2 billion in 2009 compared to RMB0.7 billion in 2008, which in turn more than doubled compared to RMB0.4 billion in 2007. This increase from 2007 to 2009 was primarily due to increases in both the number of customers and transaction volumes as a result of our continued efforts to improve our electronic banking services and products, expand our electronic banking channels and grow our electronic banking customer base.

*Custodian and Other Fiduciary Service Fees*

Custodian and other fiduciary service fees consist primarily of custody fees collected on the assets of investment funds, pension funds, insurance companies, corporate annuity funds and investments managed by QFIIs and QDIIs, that are under our custody and our other fiduciary services. Custodian and other fiduciary service fees increased by 20.4% to RMB761 million in 2009 compared to RMB632 million in 2008, primarily due to an increase in the amount of assets under our custody attributable to our increased marketing efforts to key customers. Custodian and other fiduciary service fees decreased by 8.4% to RMB632 million in 2008 compared to RMB690 million in 2007, primarily due to a decrease in the income from custodian services in connection with securities as a result of the downturn of the PRC capital markets.

*Fee and Commission Expenses*

Fee and commission expenses consist primarily of fees paid to third parties in connection with our fee- and commission-based services that can be directly allocated to the provision of such services. Fee and commission expenses increased by 65.2% to RMB1,645 million in 2009 compared to RMB996 million in 2008, which in turn increased by 7.6% from RMB926 million in 2007, primarily due to increased transaction volumes in our fee- and commission-based products and services.

**Other Net Income**

The following table sets forth, for the years indicated, the principal components of our other net income/(losses).

| | For the year ended December 31, | | |
|---|---|---|---|
| | 2007 | 2008 | 2009 |
| | (in millions of RMB) | | |
| Net (loss)/gain on financial instruments designated as at fair value through profit or loss | (1,244) | (3,603) | 2,052 |
| Net gain/(loss) on investment securities | 33 | 324 | (173) |
| Net trading gain/(loss) | 2,968 | (895) | 444 |
| Other operating (expense)/income, net[(1)] | (5,484) | (5,611) | 4,035 |
| **Total other net (loss)/income** | **(3,727)** | **(9,785)** | **6,358** |

(1) Consists primarily of gains on disposal of property and equipment, rental income, net foreign exchange (loss)/gain, special levy to the MOF and others.

*Net (Loss)/Gain on Financial Instruments Designated as at Fair Value through Profit or Loss*

Net (loss)/gain on financial instruments designated as at fair value through profit or loss consist of net realized and unrealized gains or losses on our debt securities and financial guarantee contracts which are designated at fair value through profit or loss. We recorded a net gain of RMB2.1 billion in 2009 on financial instruments designated as at fair value through profit or loss compared to a net loss of RMB3.6 billion in 2008, primarily due to a net gain of RMB1.9 billion in 2009 compared to a net loss of RMB2.9 billion in 2008 on financial guarantee contracts, which was primarily attributable to an increase in the fair value of these financial instruments as a result of the recovery of the global capital markets in 2009. Net loss on financial instruments designated as at fair value through profit or loss increased to RMB3.6 billion in 2008 compared to RMB1.2 billion in 2007, primarily due to an increase in losses on financial guarantee contracts as a result of a significant decrease in the fair value of these financial instruments during the global financial crisis in 2008.

*Net Gain/(Loss) on Investment Securities*

Net gain/(loss) on investment securities consist of net realized gains or losses on disposals of our available-for-sale debt and equity instruments. We recorded a net loss of RMB173 million on investment securities in 2009, primarily because we disposed of certain available-for-sale debt securities to avoid further decrease in value. Our net gain on investment securities significantly increased to RMB324 million in 2008 from RMB33 million in 2007, primarily because we disposed of certain available-for-sale debt securities at gain when the market prices were relatively high.

*Net Trading Gain/(Loss)*

Net trading gain/(loss) consist of net realized and unrealized gains or losses on our financial instruments held for trading purposes and derivative financial instruments. We recorded a net trading gain of RMB444 million in 2009 compared to a net loss of RMB895 million in 2008, primarily due to a gain of RMB1.3 billion on interest rate derivatives in 2009 compared to a net loss of RMB1.8 billion in 2008, which was attributable to a rise in the fair value of such products as a result of the recovery of the macroeconomy in 2009 compared to the gloomy economic condition in the global financial crisis in 2008. We recorded a net trading gain of RMB3.0 billion in 2007, primarily attributable to the gains recorded on certain cross currency interest rate swaps we entered into in that year, reflecting an increase in their fair value as a result of the appreciation of the Renminbi against major international currencies.

*Other Net Operating (Expense)/Income*

Other net operating (expense)/income consists primarily of the special levy to the MOF, net foreign exchange (loss)/gain, gains on disposal of property and equipment and other income/(expense). The special levy to the MOF represented the amount levied by the MOF to offset the interest receivable in connection with the special PRC government bond in the aggregate amount of RMB93.3 billion with an annual interest rate of 7.2% issued by the MOF to us in 1998. We recorded other net operating expense of RMB5.6 billion and RMB5.5 billion in 2008 and 2007, respectively, primarily attributable to the special levy to the MOF. In connection with our financial restructuring, effective December 1, 2008, our obligations under the MOF special levy were terminated and the MOF began to pay interest on the bond at a reduced rate of 2.25% per annum. We recorded other net operating income of RMB4.0 billion in 2009 compared to other operating expense of RMB5.6 billion in 2008, primarily due to (i) the removal of the special levy to the MOF in connection with our financial restructuring, and (ii) a gain of RMB1.9 billion on foreign exchange in 2009 compared to a loss of RMB2.9 billion in 2008, which were partially offset by a decrease in gains on disposal of property and equipment. The foreign exchange gain was primarily due to (i) the relatively stable exchange rates of the Renminbi against major international currencies in 2009 compared to an appreciation of the Renminbi against the U.S. dollar in 2008, and (ii) our entering into foreign exchange arrangements, which reduced our overall exchange rate risk by eliminating our exchange rate risk exposure arising from the US$19.0 billion capital contribution from Huijin.

**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, | | |
|---|---|---|---|
| | 2007 | 2008 | 2009 |
| | (in millions of RMB) | | |
| Staff costs | 31,171 | 57,776 | 55,765 |
| General operating and administrative expenses | 21,090 | 25,218 | 29,283 |
| Business tax and surcharges | 11,140 | 13,223 | 12,567 |
| Depreciation and amortization | 7,815 | 11,423 | 10,775 |
| Others[(1)] | 3,404 | 2,535 | 1,177 |
| **Total operating expenses** | **74,620** | **110,175** | **109,567** |
| **Cost-to-income ratio[(2)]** | **34.6%** | **45.3%** | **43.4%** |

(1) Consists primarily of expense incurred from disposal of property and equipment and provisions for litigation.

(2) Calculated by dividing (i) total operating expenses (excluding business tax and surcharges), by (ii) the sum of net interest income, net fee and commission income and other net income.

Our operating expenses remained effectively stable at RMB109.6 billion in 2009 compared to RMB110.2 billion in 2008. Our operating expenses increased by 47.6% in 2008 compared to RMB74.6 billion in 2007. Our cost-to-income ratio (excluding business tax and surcharges) was 43.4%, 45.3% and 34.6% in 2009, 2008 and 2007, respectively. The increases in our operating expenses and cost-to-income ratio in 2008 were primarily due to (i) a 85.4% increase in staff costs attributable to increases in supplementary retirement benefits and early retirement benefits as a result of changes to actuarial assumptions as well as an increase in salaries, bonuses and staff allowances, and (ii) increases in general operating and administrative expenses, depreciation and amortization and business tax and surcharges.

### *Staff Costs*

Staff costs are the largest component of our operating expenses, representing 50.9%, 52.4% and 41.8% of our operating expenses for the years ended December 31, 2009, 2008 and 2007, respectively.

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

| | For the year ended December 31, | | |
|---|---|---|---|
| | 2007 | 2008 | 2009 |
| | (in millions of RMB) | | |
| Salaries, bonuses and staff allowances | 24,301 | 31,648 | 35,734 |
| Social insurance | 4,713 | 6,024 | 9,592 |
| Housing funds | 2,577 | 3,049 | 3,710 |
| Labour union fee and staff education expenses | 1,067 | 1,466 | 1,601 |
| Supplementary retirement benefits | (4,300) | 8,935 | — |
| Early retirement benefits | (552) | 2,685 | 780 |
| Others[(1)] | 3,365 | 3,969 | 4,348 |
| **Total staff costs** | **31,171** | **57,776** | **55,765** |

(1) Consists primarily of employee benefits and supplementary medical insurance.

Staff costs decreased by 3.5% to RMB55.8 billion in 2009 compared to RMB57.8 billion in 2008 primarily due to decreases in the supplementary retirement benefits and early retirement benefits, which were partially offset by increases in salaries, bonuses and staff allowances and social insurance as a result of salary increases. We did not record any supplementary retirement benefits in 2009, because we liquidated our obligations under the supplementary retirement benefits plan using our assets in the equivalent amount and are under no obligation to make any further payments under this plan.

Staff costs increased by 85.4% to RMB57.8 billion in 2008 compared to RMB31.2 billion in 2007, primarily due to increases in supplementary retirement benefits and early retirement benefits as a result of changes to actuarial assumptions and, to a lesser extent, due to an increase in salaries, bonuses and staff allowances, reflecting our efforts to retain and attract talents. The amount of supplementary retirement benefits liability is calculated based on actuarial assumptions of a number of variables including the discount rate, healthcare cost increase rate, average life expectancy of the retirees and other factors.

### *General Operating and Administrative Expenses*

General operating and administrative expenses increased by 16.1% to RMB29.3 billion in 2009 compared to RMB25.2 billion in 2008, which in turn increased by 19.6% compared to RMB21.1 billion in 2007. The overall increase in general operating and administrative expenses from 2007 to 2009 was due to an increase in marketing and business development expenses and increased expenditure for developing our County Area Banking Business.

***Business Tax and Surcharges***

Business tax is levied at 5% primarily on our interest income from loans to customers and our gross fee and commission income. In addition, certain surcharges are levied at aggregate rates, depending on the locality, of up to 10% of the amount of our business tax paid. Business tax and surcharges decreased by 5.0% to RMB12.6 billion in 2009 compared to RMB13.2 billion in 2008, primarily due to a decrease in our interest income subject to business tax and surcharges. Business tax and surcharges increased by 18.7% to RMB13.2 billion in 2008 compared to RMB11.1 billion in 2007, primarily due to an increase in our interest income and fee and commission income subject to business tax and surcharges.

***Depreciation and Amortization***

Depreciation and amortization expense decreased by 5.7% to RMB10.8 billion in 2009 compared to RMB11.4 billion in 2008, primarily due to a decrease in our depreciable fixed assets. Depreciation and amortization expense increased by 46.2% to RMB11.4 billion in 2008 compared to RMB7.8 billion in 2007, primarily due to the revaluation of our fixed assets and intangible assets on December 31, 2007 in connection with our financial restructuring, which resulted in a surplus on revaluation of property and equipment and intangible assets.

**Provisions for Impairment Losses**

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

| | For the year ended December 31, | | |
|---|---|---|---|
| | 2007 | 2008 | 2009 |
| | (in millions of RMB) | | |
| **Provisions for/(releases from) impairment losses on:** | | | |
| Loans to customers | 21,115 | 39,858 | 44,289 |
| Investment securities | 9,384 | 9,988 | (4,428) |
| Property and equipment | 25 | 402 | 222 |
| Other assets(1) | 50 | 1,230 | 59 |
| **Total** | **30,574** | **51,478** | **40,142** |

(1) Consists primarily of provisions for/(releases from) impairment losses on deposits and placements with banks and other financial institutions and other assets.

Provisions for impairment losses decreased by 22.0% to RMB40.1 billion in 2009 compared to RMB51.5 billion in 2008, primarily due to a write-back of RMB4.4 billion from allowance for impairment losses on investment securities as a result of an increase in the fair value of foreign currency-denominated debt securities held by us. Provisions for impairment losses on our loans to customers increased by 11.1% to RMB44.3 billion in 2009 compared to RMB39.9 billion in 2008, primarily due to (i) an increase in the balance of loans at the end of 2009, and (ii) our adoption of a more conservative approach to provisioning when macroeconomic conditions presented uncertainties.

Provisions for impairment losses increased by 68.4% to RMB51.5 billion in 2008 compared to RMB30.6 billion in 2007, primarily due to our adoption of a more conservative approach to loan loss provisioning, reflecting the adverse impact of the Sichuan earthquake in May 2008 on the loans originated in the affected geographical areas and in response to the global financial crisis and the uncertainties in the PRC macroeconomic environment.

For details on changes in our allowance for loan losses, see “Assets and Liabilities—Assets—Allowance for Impairment Losses on Loans to Customers.”

### Income Tax

The following table sets forth, for the years indicated, the reconciliation between the income tax expenses calculated at the statutory income tax rate applicable to our profit before tax and our actual income tax expenses.

| | For the year ended December 31, | | |
|---|---|---|---|
| | 2007 | 2008 | 2009 |
| | (in millions of RMB) | | |
| **Profit before tax** | 78,257 | 52,349 | 73,928 |
| Tax calculated at the statutory tax rate (25% for 2009 and 2008 and 33% for 2007) | 25,825 | 13,087 | 18,482 |
| Add/(less) the tax effect of the following items: | | | |
| Items not deductible for tax purpose(1) | 10,179 | 636 | (701) |
| Income not subject to tax(2) | (4,360) | (4,187) | (4,220) |
| Tax exemptions | — | (8,624) | (4,603) |
| Effect of different tax rates on overseas and other operations | (31) | (16) | (32) |
| Effect of change in tax rate(3) | 2,857 | — | — |
| **Income tax expense** | **34,470** | **896** | **8,926** |

(1) Consists primarily of non-deductible staff costs and other operating expenses as well as assets write-offs.

(2) Consists primarily of interest income from PRC government bonds.

(3) In accordance with the amended PRC Enterprise Income Tax Law effective January 1, 2008, the statutory income tax rate applicable to us and our domestic subsidiaries decreased to 25% effective January 1, 2008 from previously 33%. The deferred tax expense for the year 2007 increased by RMB2,857 million as a result of the change in tax rate.

In 2009, our income tax expense was RMB8.9 billion and our effective income tax rate was 12.07%, lower than the statutory income tax rate, primarily attributable to (i) the deduction of our interest payables accrued from earlier years pursuant to a circular issued by the SAT in connection with our restructuring, which permitted us to deduct these interest payables for income tax purposes in 2009 and thus significantly reduced our income tax expense in that year, and (ii) non-taxable interest income on government bonds. Our income tax expense significantly decreased to RMB0.9 billion in 2008 compared to RMB34.5 billion in 2007, primarily due to (i) income tax exemptions resulted from the MOF’s capital contribution of RMB34,497 million to us using our profit before tax for the year of 2008, in connection with our financial restructuring; and (ii) the implementation of the amended PRC Enterprise Income Tax Law, which reduced the statutory income tax rate to 25% effective January 1, 2008 from the previous rate of 33%. The amount of items non-deductible for tax purposes was relatively large in 2007, primarily because (i) our staff salary expenses exceeded the then applicable deductible limits, and (ii) we recognized additional interest payables, which were not yet deducted in 2007 pending approvals from the tax authorities, in preparation for our financial restructuring.

The following table sets forth, for the years indicated, the components of our income tax expenses.

| | For the year ended December 31, | | |
|---|---|---|---|
| | 2007 | 2008 | 2009 |
| | (in millions of RMB) | | |
| Current income tax | 24,851 | 14,907 | 7,196 |
| Deferred income tax | 9,619 | (14,011) | 1,730 |
| **Income tax expense** | **34,470** | **896** | **8,926** |

### Net Profit

Primarily as a result of all the foregoing factors, our net profit increased by 26.3% to RMB65.0 billion in 2009 compared to RMB51.5 billion in 2008, which increased by 17.5% from RMB43.8 billion in 2007.

## SUMMARY SEGMENT OPERATING RESULTS

We have three principal business activities: corporate banking, retail banking and treasury operations, and operate through branches in eight geographical regions: Head Office, Yangtze River Delta, Pearl River Delta, Bohai Rim, Central China, Northeastern China, Western China and overseas and other operations. Our internal organizational structure and internal financial reporting systems are organized both along the above business lines and geographical lines based on our branch structure, and we regularly evaluate the performance of each of our business segments and branches and their respective contributions to our operating income. In recent years, we have strengthened our internal financial reporting and performance evaluation along business lines.

Since 2007, we started to further manage our businesses along the division of our County Area Banking Business and urban banking business based on the locations of our branches in the County Areas or the Urban Areas. Our County Area Banking Business provides financial products and services targeted at customers in the County Areas. Our County Area Banking Business is conducted primarily through our 2,048 county-level sub-branches and 22 business departments of tier-2 branches in the County Areas. The product and services we provide through our County Area Banking Business consist primarily of loans, deposits, bank cards and agency services. We have formulated guidelines to establish an internal organizational structure for our County Area Banking Business. For detailed discussions on business, financial condition and results of operations of our County Area Banking Business, see "County Area Banking Business."

Funds are borrowed and lent between our segments at intersegment rates that are determined based on market rates. The intersegment net interest income of each segment accounts for the interest income generated from funds lent to other segments, net of the interest expense paid on funds borrowed from other segments. Such intersegment interest income and interest expense are eliminated in our consolidated financial statements.

### Summary Business Segment Information

Our principal business activities are corporate banking, retail banking and treasury operations. For a description of products and services included in these business activities, see "Business—Our Principal Businesses."

The following table sets forth, for the years indicated, our operating results for each of our principal business segments.

| | For the year ended December 31, | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2007 | | | | | 2008 | | | | | 2009 | | | | |
| | Corporate banking | Retail banking | Treasury operations | Others | Total | Corporate banking | Retail banking | Treasury operations | Others | Total | Corporate banking | Retail banking | Treasury operations | Others | Total |
| | (in millions of RMB) | | | | | | | | | | | | | | |
| Net external interest (expense)/ income[1] | 134,773 | (16,441) | 45,851 | — | 164,183 | 152,739 | (30,087) | 77,351 | — | 200,003 | 129,811 | (39,360) | 91,188 | — | 181,639 |
| Inter-segment interest income/ (expense)[2] | (50,697) | 63,631 | (12,872) | (62) | — | (46,332) | 81,462 | (35,088) | (42) | — | (27,152) | 96,417 | (69,273) | 8 | — |
| **Net interest income** | 84,076 | 47,190 | 32,979 | (62) | 164,183 | 106,407 | 51,375 | 42,263 | (42) | 200,003 | 102,659 | 57,057 | 21,915 | 8 | 181,639 |
| **Net fee and commission income** | 10,788 | 12,207 | — | — | 22,995 | 8,667 | 15,131 | — | — | 23,798 | 19,983 | 15,657 | — | — | 35,640 |
| Other net income/ (expense) | 1,728 | 1,616 | (8,741) | 1,670 | (3,727) | 1,301 | 1,490 | (13,190) | 614 | (9,785) | 463 | 900 | 4,194 | 801 | 6,358 |
| **Operating income** | 96,592 | 61,013 | 24,238 | 1,608 | 183,451 | 116,375 | 67,996 | 29,073 | 572 | 214,016 | 123,105 | 73,614 | 26,109 | 809 | 223,637 |
| Operating expenses | (33,086) | (35,137) | (5,753) | (644) | (74,620) | (43,054) | (54,012) | (12,616) | (493) | (110,175) | (40,820) | (56,483) | (12,016) | (248) | (109,567) |
| Provisions for impairment losses | (27,110) | (4,890) | 1,502 | (76) | (30,574) | (40,480) | (1,003) | (9,995) | — | (51,478) | (37,118) | (7,289) | 4,255 | 10 | (40,142) |
| Share of losses of an associate | — | — | — | — | — | — | — | — | (14) | (14) | — | — | — | — | — |
| **Profit before tax** | **36,396** | **20,986** | **19,987** | **888** | **78,257** | **32,841** | **12,981** | **6,462** | **65** | **52,349** | **45,167** | **9,842** | **18,348** | **571** | **73,928** |

(1) Represents net interest income/(expense) from each segment's external customers or activities.

(2) Represents net interest income/(expense) attributable to each segment's transactions with other segments.

Our corporate banking business recorded a profit before tax of RMB45.2 billion in 2009, a 37.5% increase compared to RMB32.8 billion in 2008, primarily due to a significant increase in net fee and commission income as a result of our continued efforts to grow our fee- and commission-based business, accompanied by a decrease in our operating expenses, reflecting our efforts to control our operating expenses. Our corporate banking business experienced a 9.8% decrease in profit before tax to RMB32.8 billion in 2008 compared to RMB36.4 billion in 2007 notwithstanding an increase in our operating income, primarily due to increases in our operating expenses and provisions for impairment losses on our corporate loans.

Our retail banking business recorded a profit before tax of RMB9.8 billion in 2009, a 24.2% decrease compared to RMB13.0 billion in 2008, primarily due to a significant increase in provisions for impairment losses on our retail loans and an increase in operating expenses, which were partially offset by an increase in operating income. The increase in provisions for impairment losses on our retail loans resulted primarily from a 69.9% increase in our retail loan in 2009 and our adoption of a more conservative approach to loan provisioning while macroeconomic conditions presented uncertainties. However, the operating income of our retail banking business experienced a 8.3% increase in 2009 compared to 2008, primarily due to an increase in net interest income. Our retail banking business experienced a 38.1% decrease in profit before tax to RMB13.0 billion in 2008 compared to RMB21.0 billion in 2007, primarily due to a significant increase in operating expenses, which was partially offset by a 11.4% increase in operating income.

Profit before tax for our treasury operations almost tripled to RMB18.3 billion in 2009 compared to RMB6.5 billion in 2008, primarily due to a release of RMB4.3 billion from allowance for impairment losses in 2009 compared to a net provision of RMB10.0 billion in 2008 resulting from an increase in the fair value of our financial assets, reflecting the improvement in macroeconomic condition. Operating income generated from our treasury operations increased by 19.9% to RMB29.1 billion in 2008 compared to RMB24.2 billion in 2007. However, profit before tax decreased significantly to RMB6.5 billion in 2008 compared to RMB20.0 billion in 2007, primarily due to a net provision for impairment losses of RMB10.0 billion compared to a release of RMB1.5 billion in 2007 and an increase in operating expenses. The net provision for impairment losses in 2008 was primarily because we recognized impairment losses on certain foreign currency-denominated available-for-sale debt securities as a result of a significant decrease in their fair value.

**Summary Geographical Segment Information**

In presenting information on the basis of geographical segments, operating income is allocated based on the location of the branch or subsidiary that generated the revenue. For purposes of presentation, we categorize this information into regions. The following table sets forth, for the years indicated, the total operating income attributable to each of these geographical regions. For a description of our geographical regions, see "Definitions and Conventions."

| | For the Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2007 | | 2008 | | 2009 | |
| | Amount | % of Total | Amount | % of Total | Amount | % of Total |
| | (in millions of RMB, except percentages) | | | | | |
| Head Office | 8,476 | 4.6% | 40,641 | 19.0% | 30,353 | 13.6% |
| Yangtze River Delta | 41,889 | 22.8 | 45,089 | 21.1 | 46,165 | 20.6 |
| Pearl River Delta | 27,553 | 15.0 | 26,501 | 12.4 | 28,756 | 12.9 |
| Bohai Rim | 30,092 | 16.4 | 28,357 | 13.2 | 33,059 | 14.8 |
| Central China | 24,580 | 13.4 | 23,944 | 11.2 | 27,977 | 12.5 |
| Northeastern China | 8,706 | 4.7 | 6,720 | 3.1 | 8,629 | 3.9 |
| Western China | 41,067 | 22.4 | 42,347 | 19.8 | 47,520 | 21.2 |
| Overseas and other operations[(1)] | 1,088 | 0.7 | 417 | 0.2 | 1,178 | 0.5 |
| **Total operating income** | **183,451** | **100.0%** | **214,016** | **100.0%** | **223,637** | **100.0%** |

(1) Consists of operating income attributable to our overseas branches and subsidiaries in and outside of China.

Operating income generated in the Yangtze River Delta, the Pearl River Delta and Bohai Rim increased by 8.0% to RMB108.0 billion in 2009 compared to RMB99.9 billion in 2008, primarily due to increases in net interest income and fee and commission income. Operating income generated in these regions remained effectively stable in 2008 compared to 2007.

Operating income generated in Western China, Central China and Northeastern China increased by 15.2% to RMB84.1 billion in 2009 compared to RMB73.0 billion in 2008, primarily due to increases in net interest income and fee and commission income. Operating income generated in these regions decreased slightly by 1.8% to RMB73.0 billion in 2008 compared to RMB74.4 billion in 2007, primarily due to a decrease in net interest income.

Among all geographical regions, our Head Office recorded the largest increase in operating income in 2008 as compared to 2007, which was primarily attributable to the interest income accrued on the MOF receivable, which was issued to us in connection with our financial restructuring, at an annual rate of 3.3% from January 1, 2008. See "—Financial Impact of Our Restructuring."

### Summary County Area Banking Business and Urban Banking Business Information

The following table sets forth, for the years indicated, our operating results for County Area Banking Business and urban banking business. For detailed discussions on the business, financial condition and results of operations of our County Area Banking Business, see "County Area Banking Business."

| | For the year ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2007 | | | 2008 | | | 2009 | | |
| | County Area Banking Business | Urban banking business | Total | County Area Banking Business | Urban banking business | Total | County Area Banking Business | Urban banking business | Total |
| | (in millions of RMB) | | | | | | | | |
| Net external interest income(1) | 18,489 | 145,694 | 164,183 | 14,375 | 185,628 | 200,003 | 15,878 | 165,761 | 181,639 |
| Inter-segment interest income/(expense)(2) | 18,149 | (18,149) | — | 45,953 | (45,953) | — | 54,575 | (54,575) | — |
| **Net interest income** | 36,638 | 127,545 | 164,183 | 60,328 | 139,675 | 200,003 | 70,453 | 111,186 | 181,639 |
| **Net fee and commission income** | 8,841 | 14,154 | 22,995 | 10,416 | 13,382 | 23,798 | 13,693 | 21,947 | 35,640 |
| Other net income/(expense) | 2,246 | (5,973) | (3,727) | 1,281 | (11,066) | (9,785) | 1,215 | 5,143 | 6,358 |
| Operating expenses | (30,644) | (43,976) | (74,620) | (45,757) | (64,418) | (110,175) | (46,892) | (62,675) | (109,567) |
| Provisions for impairment losses | (7,647) | (22,927) | (30,574) | (12,824) | (38,654) | (51,478) | (17,524) | (22,618) | (40,142) |
| Share of losses of an associate | — | — | — | — | (14) | (14) | — | — | — |
| **Profit before tax** | **9,434** | **68,823** | **78,257** | **13,444** | **38,905** | **52,349** | **20,945** | **52,983** | **73,928** |

(1) Represents net interest income/(expense) from each segment's external customers or activities.
(2) Represents net interest income/(expense) attributable to each segment's transactions with other segments.

Profit before tax generated from our County Area Banking Business experienced a steady growth from 2007 to 2009, primarily due to an increase in operating income, which was partially offset by increases in operating expenses and provisions for impairment losses. For a detailed discussion of the assets and liabilities as well as results of operations of our County Area Banking Business, see "County Area Banking Business—Assets and Liabilities" and "—Results of Operations of Our County Area Banking Business."

Profit before tax generated from our urban banking business increased by 36.2% to RMB53.0 billion in 2009 compared to RMB38.9 billion in 2008, primarily due to a decrease in provisions for impairment losses. Profit before tax generated from our urban banking business decreased by 43.5% to RMB38.9 billion in 2008 from RMB68.8 billion in 2007, primarily due to increases in operating expenses and provisions for impairment losses.

## CASH FLOWS

The following table sets forth our cash flows for the years indicated. See "Appendix I—Accountants' Report—A. Financial Information—Consolidated Statements of Cash Flows."

| | For the year ended December 31, | | |
|---|---|---|---|
| | 2007 | 2008 | 2009 |
| | (in millions of RMB) | | |
| Net cash generated by/(used in) operating activities | 144,715 | 284,781 | (21,025) |
| Net cash used in investing activities | (104,262) | (235,056) | (188,338) |
| Net cash generated in financing activities | — | 130,117 | 49,950 |
| Effect of exchange rate changes on cash and cash equivalents | (3,111) | (5,468) | 149 |
| **Net increase /(decrease) in cash and cash equivalents** | **37,342** | **174,374** | **(159,264)** |

### Cash Flows from Operating Activities

Cash inflows from operating activities are primarily attributable to the net increases in deposits from customers, banks and other financial institutions, interest income, fees and commissions received in cash, placements from banks and other financial institutions and other cash inflows generated from operating activities. The net increase in the balance of our deposits from customers, banks and other financial institutions for the years ended December 31, 2009, 2008 and 2007 was RMB1,684.6 billion, RMB803.7 billion and RMB592.3 billion, respectively. We received interest income, fees and commissions in cash of RMB254.9 billion, RMB267.1 billion and RMB218.6 billion in 2009, 2008 and 2007, respectively. Cash inflows due to net decrease in placements with banks and other financial institutions amounted to RMB4.8 billion and RMB5.5 billion in 2008 and 2007, respectively. In 2009, we had cash outflows due to net increase in placements with banks and other financial institutions. Other cash inflows generated from operating activities amounted to RMB89.1 billion, RMB48.3 billion and RMB107.4 billion in 2009, 2008 and 2007, respectively.

Cash outflows from our operating activities are primarily attributable to the net increase in loans to customers, the net increase in balances with central banks and deposits and placements with banks and other financial institutions and interest expense and fee and commission expenses paid in cash. The net increase in the total balance of our loans to customers for the years ended December 31, 2009, 2008 and 2007 was RMB1,039.1 billion, RMB392.8 billion and RMB333.3 billion, respectively. For a discussion of increases in our loans to customers from December 31, 2007 to December 31, 2009, see "Assets and Liabilities—Assets—Loans to Customers." The net increase in balances with central banks and deposits with banks and other financial institutions for the years ended December 31, 2009, 2008 and 2007 was RMB389.0 billion, RMB183.1 billion and RMB262.2 billion, respectively. The net increase in placements with banks and other financial institutions amounted to RMB12.2 billion in 2009. Interest expense and fee and commission expenses paid in cash amounted to RMB115.9 billion, RMB101.0 billion and RMB78.9 billion in 2009, 2008 and 2007, respectively.

We used cash of RMB21.0 billion in our operating activities in 2009 compared to cash inflows from operating activities of RMB284.8 billion in 2008, primarily due to increases in loans to customers, balances with central banks, deposits with banks and other financial institutions and cash related to other operating assets.

Cash inflows from operating activities increased from RMB144.7 billion in 2007 to RMB284.8 billion in 2008, primarily due to increases in customer deposits and deposits from banks and other financial institutions, which were partially offset by an increase in loans to customers.

### Cash Flows from Investing Activities

Cash inflows from our investing activities are primarily attributable to proceeds from disposal of investments and returns on investments received. The proceeds from disposal of investments for the years ended December 31, 2009, 2008 and 2007 amounted to RMB1,410.9 billion, RMB496.1 billion and RMB780.6 billion, respectively.

Our cash outflows from investing activities are primarily attributable to purchases of investment securities. Our purchases of investment securities for the years ended December 31, 2009, 2008 and 2007 amounted to RMB1,655.8 billion, RMB783.6 billion and RMB913.9 billion, respectively.

### Cash Flows from Financing Activities

Our cash inflows from financing activities are primarily attributable to proceeds from debt securities issued and the capital injection from Huijin. We issued subordinated bonds in May 2009 in an aggregate nominal value of RMB50 billion. On October 29, 2008, we received US$19.0 billion (equivalent to RMB130.0 billion) from Huijin, which constituted its capital contribution to us upon our incorporation into a joint stock limited liability company. We did not receive any cash from financing activities in 2007.

## LIQUIDITY

We fund our loan and investment portfolios principally through our customer deposits. Although a majority of deposits from customers have been short-term deposits, customer deposits have been, and we believe will continue to be, a stable source of our funding. Customer deposits with remaining maturities of less than one year represented 93.6%, 92.6% and 93.0% of total deposits from customers at December 31, 2009, 2008 and 2007, respectively. For additional information about our short-term liabilities and sources of funds, see "Assets and Liabilities—Liabilities and Sources of Funds" and "Supervision and Regulation—PRC Banking Supervision and Regulation—Other Operational and Risk Management Ratios."

We manage liquidity primarily by monitoring the maturities of our assets and liabilities in an effort to ensure that we have sufficient funds to meet obligations as they become due. We have been focusing on maintaining stable sources of funding and increasing our customer deposits. Furthermore, to meet potential liquidity requirements, we invest in a significant amount of liquid assets, such as PBOC bills and PRC government bonds, and financial assets with short maturities, such as financial assets held under resale agreements, short-term debt securities and discounted bills. We have also sought to increase the proportion of our core liabilities to improve our stable funding sources. If further liquidity requirements arise, we have access to the inter-bank money market, where we have historically been a net lender. See "Risk Management—Liquidity Risk Management."

The following table sets forth, at December 31, 2009, the remaining maturities of our financial assets and liabilities.

| | At December 31, 2009 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Overdue[(1)]/ undated | Repayable on demand | Less than 1 month | Between 1 and 3 months | Between 3 and 12 months | Between 1 and 5 years | More than 5 years | Total |
| | (in millions of RMB) | | | | | | | |
| **Financial Assets** | | | | | | | | |
| Cash and balances with central banks | 1,211,017 | 152,789 | — | — | — | 154,000 | — | 1,517,806 |
| Deposits and placements with banks and other financial institutions | — | 42,798 | 40,672 | 13,377 | 13,799 | 482 | — | 111,128 |
| Financial assets held under resale agreements | — | — | 147,267 | 229,380 | 44,446 | — | — | 421,093 |
| Loans to customers, net | 17,146 | — | 200,279 | 453,547 | 1,297,465 | 997,473 | 1,045,585 | 4,011,495 |
| Investment securities and other financial assets, net | 494 | 41 | 128,020 | 202,626 | 455,945 | 742,284 | 1,087,262 | 2,616,672 |
| Derivative financial assets | — | — | 190 | 156 | 677 | 566 | 3,089 | 4,678 |
| Others financial assets | 735 | 2,385 | 5,946 | 12,830 | 13,616 | 109 | — | 35,621 |
| **Total financial assets** | **1,229,392** | **198,013** | **522,374** | **911,916** | **1,825,948** | **1,894,914** | **2,135,936** | **8,718,493** |
| **Financial Liabilities** | | | | | | | | |
| Borrowings from central bank | — | (30) | — | — | — | (28) | — | (58) |
| Deposits and placements from banks and other financial institutions | — | (267,459) | (57,461) | (81,593) | (46,857) | (146,742) | (149) | (600,261) |
| Financial liabilities designated as at fair value through profit or loss and held for trading | — | (56) | (46,283) | (18,602) | (46,341) | (2,537) | (80) | (113,899) |
| Derivative financial liabilities | — | — | (160) | (202) | (550) | (1,140) | (5,638) | (7,690) |
| Financial assets sold under repurchase agreements | — | — | (75,094) | (10,561) | (15,157) | — | — | (100,812) |
| Deposits from customers | — | (4,492,349) | (319,646) | (602,158) | (1,602,159) | (479,593) | (1,713) | (7,497,618) |
| Debt securities issued | — | — | — | — | (1,354) | (28,848) | (24,977) | (55,179) |
| Other financial liabilities | — | (49,081) | (12,233) | (11,503) | (23,195) | (23,701) | (3) | (119,716) |
| **Total financial liabilities** | **—** | **(4,808,975)** | **(510,877)** | **(724,619)** | **(1,735,613)** | **(682,589)** | **(32,560)** | **(8,495,233)** |
| **Liquidity gap** | **1,229,392** | **(4,610,962)** | **11,497** | **187,297** | **90,335** | **1,212,325** | **2,103,376** | **223,260** |
| **Cumulative liquidity gap** | **1,229,392** | **(3,381,570)** | **(3,370,073)** | **(3,182,776)** | **(3,092,441)** | **(1,880,116)** | **223,260** | |

(1) Includes loans and other assets on which principal is overdue.

## CAPITAL RESOURCES

### Shareholders' Equity

Our total shareholders' equity increased to RMB342.9 billion at December 31, 2009 from RMB290.5 billion at December 31, 2008, which in turn increased from a deficit of RMB727.6 billion at December 31, 2007. The accumulated deficit of RMB727.6 billion at December 31, 2007 was primarily due to impairment losses on loans in earlier years. The following table sets forth, for the years indicated, the components of the changes in our total equity attributable to shareholders.

| | Shareholders' equity |
|---|---|
| | (in millions of RMB) |
| **At December 31, 2006** | **(762,419)** |
| Profit for the year | 43,787 |
| Other comprehensive income | (8,641) |
| Transfer to Great Wall Trust | (332) |
| **At December 31, 2007** | **(727,605)** |
| Profit for the year | 51,453 |
| Other comprehensive income | 24,926 |
| Disposal of non-performing assets to the MOF[1] | 760,665 |
| Revaluation surplus on assets | 50,992 |
| Capital injection by Huijin | 130,000 |
| Contribution from non-controlling shareholder | 117 |
| Transfer to Great Wall Trust | (7) |
| **At December 31, 2008** | **290,541** |
| Profit for the year | 65,002 |
| Other comprehensive income | (12,618) |
| **At December 31, 2009** | **342,925** |

(1) Represents equity contribution from the release of allowance on non-performing loans and other impaired assets disposed of in connection with our financial restructuring.

We did not pay any dividend for the years ended December 31, 2008 or 2007. At an extraordinary general meeting of shareholders on April 21, 2010, our Board of Directors recommended, and our shareholders approved, the distribution of a cash dividend to the MOF and Huijin in the aggregate amount of RMB20 billion with respect to the year of 2009.

### Debt

#### *Subordinated Bonds*

On May 20, 2009, to increase our supplementary capital, we issued subordinated bonds in an aggregate amount of RMB50 billion in three tranches, including (i) fixed rate subordinated bonds in an aggregate principal amount of RMB20 billion with a final maturity date of May 20, 2019, the interest rate on which is 3.3% for the first five years, to be stepped up to 6.3% if the bonds are not called by us at the fifth anniversary, (ii) fixed rate subordinated bonds in an aggregate principal amount of RMB25 billion with a final maturity date of May 20, 2024, the interest rate on which is 4.0% for the first ten years, to be stepped up to 7.0% if the bonds are not called by us at the tenth anniversary, and (iii) floating rate subordinated bonds in an aggregate principal amount of RMB5 billion with a final maturity date of May 20, 2019, the interest rate on which is the PBOC benchmark rate on one-year time deposits plus 0.6% for the first five years, to be stepped up to such benchmark rate plus 3.6% if the bonds are not called by us at the fifth anniversary.

*Certificates of Deposit*

Through our overseas branches, we from time to time issue certificates of deposit. At December 31, 2009, the balance of our certificates of deposit was RMB5.2 billion.

## 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 requirements under the Administrative Measures on the Capital Adequacy Ratio of Commercial Banks and based on our financial statements prepared in accordance with PRC GAAP.

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

| | At December 31, | |
|---|---|---|
| | 2008 | 2009 |
| | (in millions of RMB, except percentages) | |
| **Core capital adequacy ratio** | 8.04% | 7.74%[3] |
| Capital adequacy ratio | 9.41% | 10.07%[3] |
| **Components of capital base** | | |
| Core capital: | | |
| Share capital | 260,000 | 260,000 |
| Surplus reserve and general and regulatory reserves | 1,251 | 18,448 |
| Un-appropriated profit | 12,022 | 59,817[3] |
| Minority interest | 96 | 106 |
| Supplementary capital: | | |
| General loan loss allowance | 37,815 | 66,057 |
| Reserve of fair value changes of available-for-sale financial assets | 8,646 | 2,312 |
| Long-term subordinated bonds | — | 50,000 |
| **Total capital base before deductions** | 319,830 | 456,740 |
| Deductions: | | |
| Equity investments which are not consolidated | 347 | 197 |
| Other deductible item[1] | — | 16,194 |
| **Total capital base after deductions[2]** | **319,483** | **440,349[3]** |
| **Risk-weighted assets** | **3,396,301** | **4,373,006** |

(1) Consists of long-term subordinated bonds we held issued by other banks, which were deducted in accordance with the CBRC guideline with respect to supplementary capital of commercial banks.
(2) Also referred to in this prospectus as "regulatory capital."
(3) The cash dividend of RMB20 billion declared in respect of the year of 2009 payable to the shareholders on our register of members as of December 31, 2009 was not deducted from the core capital and regulatory capital in calculating the above core capital adequacy ratio and capital adequacy ratio, respectively, at December 31, 2009. Our core capital adequacy ratio and capital adequacy ratio would have been 7.28% and 9.61%, respectively, at December 31, 2009 if such cash dividend were deducted from core capital and regulatory capital, respectively, at that date.

At December 31, 2009 and 2008, our capital adequacy ratio was 10.07% and 9.41%, respectively, and our core capital adequacy ratio was 7.74% and 8.04%, respectively, in compliance with the CBRC requirements. Our capital adequacy ratio and core capital adequacy ratio at December 31, 2007 were below regulatory requirements and we had capital deficits at December 31, 2007. No sanctions were imposed on us for our failure to meet the regulatory requirements.

The CBRC announced a plan to start implementing Basel II capital accord by the year end of 2010 in assessing capital adequacy of the banks with operations in other jurisdictions and significant international business as well as the banks which elect to comply with Basel II. We have applied to the CBRC for the implementation of Basel II with respect to our capital adequacy starting as of the year end of 2010. The methodologies of computation of our capital adequacy ratios may differ under Basel II from our current practice, which may result in changes in our capital adequacy ratios. See “Risk Factors—Risks Relating to Our Business—We may face difficulties in meeting regulatory requirements relating to capital adequacy.”

The CBRC currently has completed its pre-evaluation of our preparations for implementing Basel II and is expected to provide us with evaluation results in the near future. With respect to credit risk, we have increased our efforts on the development of the retail Advanced Internal Ratings-Based (AIRB) approach, completed the development of score cards to assess the application for our various retail credit products, conducted measurement of various risk indicators and initiated the development of an internal retail customer rating system and the development of a retail credit risk data warehouse. With respect to market risk, we have initiated the development of internal models for market risk management. With respect to operational risk, we have developed and implemented an Operational Risk Management System (ORMS) and developed a system of operational risk management tools as well as the procedures for risk identification, assessment, control, measurement and reporting to support our efforts to comply with the regulatory requirements relating to the Standardized Approach for operational risk; we have also started to collect data on losses arising from operational risk and established policies and procedures for continuous loss data collection, laying the foundation for implementing the Advanced Measurement Approach for operational risk.

## OFF-BALANCE SHEET COMMITMENTS

Our off-balance sheet commitments consist primarily of loan commitments, letters of guarantees, letters of credit and acceptances. Loan commitments are our commitments to extend credit. We issue letters of guarantees and letters of credit to guarantee the performance of our customers to third parties. Acceptances consist of undertakings by us to pay bills of exchange issued by our customers. The following table sets forth the contractual amounts of our off-balance sheet commitments at the dates indicated.

| | At December 31, | | |
|---|---|---|---|
| | **2007** | **2008** | **2009** |
| | **(in millions of RMB)** | | |
| Loan commitments | | | |
| Contract maturity within one year | 25,041 | 41,667 | 50,650 |
| Contract maturity over one year | 313,242 | 362,172 | 693,874 |
| Subtotal | 338,283 | 403,839 | 744,524 |
| Letters of credit issued | 51,983 | 38,780 | 53,933 |
| Letters of guarantee issued | 129,214 | 149,837 | 151,355 |
| Acceptances | 204,695 | 189,126 | 271,871 |
| **Total** | **724,175** | **781,582** | **1,221,683** |

Our loan commitments increased by 84.4% to RMB744.5 billion at December 31, 2009 from RMB403.8 billion at December 31, 2008, primarily due to an increase in loan commitments over one year to RMB693.9 billion at December 31, 2009 from RMB362.2 billion at December 31, 2008, as a result of increased customer demand for credit, reflecting the effect of the PRC macroeconomic policies.

## TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following table sets forth the face value of our known contractual obligations by remaining contract maturity classified into the categories specified below at December 31, 2009.

| | At December 31, 2009 | | | |
|---|---|---|---|---|
| | Less than 1 year | Between 1 and 5 years | More than 5 years | Total |
| | (in millions of RMB) | | | |
| **On-balance sheet** | | | | |
| Subordinated bonds issued | — | 24,978 | 24,977 | 49,955 |
| Certificates of deposit issued | 1,354 | 3,870 | — | 5,224 |
| **Off-balance sheet** | | | | |
| Operating lease commitment | 1,271 | 3,362 | 1,818 | 6,451 |
| Redemption obligation (bearer-form treasury bonds and underwritten saving treasury bonds) | 19,853 | 39,525 | — | 59,378 |
| Subtotal | 22,478 | 71,735 | 26,795 | 121,008 |
| Capital commitments authorized or contracted for | | | | 7,319 |
| **Total** | | | | **128,327** |

## 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. We are exposed to market risk primarily through the assets and liabilities on our balance sheet, as well as our off-balance sheet commitments and guarantees. The market risks to which we are primarily exposed are interest rate risk and exchange rate risk. We have imposed a set of exposure limits for our investment and trading activities in an effort to manage potential market losses within acceptable limits.

### Interest Rate Risk

The primary source of our interest rate risk arises from mismatches in the maturity or repricing periods of our banking portfolio. Maturity mismatches may cause net interest income to be affected by changes in the prevailing level of interest rates. Currently, we primarily use gap analysis and sensitivity analysis to assess our exposure to interest rate risk. In addition, different pricing bases for different assets and liabilities may also lead to interest rate risk for our assets and liabilities within the same repricing period. We manage our interest rate risk exposure primarily by adjusting the maturity profile of our banking portfolio based on our assessment of potential changes in the interest rate environment.

### *Repricing Gap Analysis*

The following table sets forth, at December 31, 2009, the results of our gap analysis based on the earlier of (i) the next expected re-pricing dates, and (ii) the final maturity dates for our financial assets and liabilities.

| | At December 31, 2009 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Up to 1 month | 1 month up to 3 months | 3 months up to 1 year | 1 year up to 5 years | Over 5 years | Non-interest-bearing | Total |
| | (in millions of RMB) | | | | | | |
| **Financial Assets** | | | | | | | |
| Cash and balances with central banks | 1,241,274 | – | — | 154,000 | — | 122,532 | 1,517,806 |
| Deposits and placements with banks and other financial institutions | 81,759 | 14,418 | 12,781 | — | — | 2,170 | 111,128 |
| Derivative financial assets | — | — | — | — | — | 4,678 | 4,678 |
| Financial assets held under resale agreements | 147,267 | 229,551 | 44,275 | — | — | — | 421,093 |
| Loans to customers, net | 1,490,928 | 1,051,095 | 1,466,940 | 2,274 | 258 | — | 4,011,495 |
| Investment securities and other financial assets, net(1) | 161,677 | 260,866 | 521,311 | 627,049 | 1,045,255 | 514 | 2,616,672 |
| Other financial assets | — | — | — | — | — | 35,621 | 35,621 |
| **Total financial assets** | 3,122,905 | 1,555,930 | 2,045,307 | 783,323 | 1,045,513 | 165,515 | 8,718,493 |
| **Financial Liabilities** | | | | | | | |
| Borrowings from central bank | — | — | — | — | — | (58) | (58) |
| Deposits and placements from banks and other financial institutions | (441,857) | (79,546) | (41,011) | (36,488) | (149) | (1,210) | (600,261) |
| Financial liabilities designated as at fair value through profit or loss and held for trading | (46,283) | (18,602) | (46,341) | (1,768) | (80) | (825) | (113,899) |
| Derivative financial liabilities | — | — | — | — | — | (7,690) | (7,690) |
| Financial assets sold under repurchase agreements | (75,094) | (10,561) | (15,157) | — | — | — | (100,812) |
| Deposits from customers | (4,719,663) | (602,155) | (1,624,749) | (457,002) | (1,713) | (92,336) | (7,497,618) |
| Debt securities issued | (621) | (2,959) | (5,337) | (21,285) | (24,977) | — | (55,179) |
| Other financial liabilities | — | — | — | — | — | (119,716) | (119,716) |
| **Total financial liabilities** | **(5,283,518)** | **(713,823)** | **(1,732,595)** | **(516,543)** | **(26,919)** | **(221,835)** | **(8,495,233)** |
| **Re-pricing gap** | **(2,160,613)** | **842,107** | **312,712** | **266,780** | **1,018,594** | **(56,320)** | **223,260** |
| **Cumulative re-pricing gap** | **(2,160,613)** | **(1,318,056)** | **(1,005,794)** | **(739,014)** | **279,580** | **223,260** | |

(1) The remaining maturities of debt securities investments are the remaining contract maturities of such securities and do not necessarily represent our intentions with respect to such securities.

***Sensitivity Analysis***

We use sensitivity analysis to measure the potential effect of changes in interest rates on our net interest income and other comprehensive income. The following table sets forth, at the dates indicated, the results of our interest rate sensitivity analysis based on our assets and liabilities at the same date.

| | December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2007 | | 2008 | | 2009 | |
| | Change in net interest income | Change in other comprehensive income | Change in net interest income | Change in other comprehensive income | Change in net interest income | Change in other comprehensive income |
| | (in millions of RMB) | | | | | |
| 100 basis-point increase(1) . . . | (10,842) | (12,764) | (9,315) | (17,431) | (12,516) | (14,826) |
| 100 basis-point decrease(1) . . . | 10,842 | 13,743 | 9,315 | 18,714 | 12,516 | 15,851 |

(1) Interest rates for certain products are below 1%. This is for reference only.

Based on our assets and liabilities at December 31, 2009, if interest rates increase (or decrease) by 100 basis points instantaneously, our net interest income for the year following December 31, 2009 would decrease (or increase) by RMB12.5 billion. If interest rates increase by 100 basis points instantaneously, our other comprehensive income immediately following December 31, 2009 would decrease by RMB14.8 billion, and if interest rates decrease by 100 basic points instantaneously, our comprehensive income immediately following December 31, 2009 would increase by RMB15.9 billion.

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, which are reflected by the repricing of our assets and liabilities within a year, on our net interest income and other comprehensive income. The analysis is based on the following assumptions: (i) all assets and liabilities that reprice or are due within three months and in more than three months but within one year, as shown in the table under "—Repricing Gap Analysis," reprice or are due in the middle of the respective periods (i.e., all the assets and liabilities that reprice or are due within three months reprice or are due in 1.5 months, and all the assets and liabilities that reprice or are due in more than three months but within one year reprice or are due in 7.5 months), (ii) there is a parallel shift in the yield curve and in interest rates, and (iii) there are no other changes to the portfolio. Actual changes in our net interest income resulting from increases or decreases in interest rates may differ from the results of this sensitivity analysis.

**Exchange Rate Risk**

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, at December 31, 2009, our financial assets and liabilities by currency.

| | At December 31, 2009 | | | | |
|---|---|---|---|---|---|
| | RMB | US$ | HK$ | Others | Total |
| | (in millions of RMB equivalent) | | | | |
| **Financial Assets** | | | | | |
| Cash and balances with central banks | 1,510,843 | 5,154 | 1,088 | 721 | 1,517,806 |
| Deposits and placements with banks and other financial institutions | 39,470 | 66,794 | 871 | 3,993 | 111,128 |
| Financial assets held under resale agreements | 420,922 | 171 | — | — | 421,093 |
| Loans to customers, net | 3,860,236 | 122,874 | 22,842 | 5,543 | 4,011,495 |
| Investment securities and other financial assets, net | 2,531,553 | 76,566 | 4,135 | 4,418 | 2,616,672 |
| Derivative financial assets | 1,421 | 1,281 | 178 | 1,798 | 4,678 |
| Other financial assets | 33,868 | 1,637 | 43 | 73 | 35,621 |
| **Total financial assets** | 8,398,313 | 274,477 | 29,157 | 16,546 | 8,718,493 |
| **Financial Liabilities** | | | | | |
| Borrowings from central bank | (58) | — | — | — | (58) |
| Deposits and placements from banks and other financial institutions | (451,218) | (138,018) | (8,252) | (2,773) | (600,261) |
| Financial assets sold under repurchase agreements | (69,557) | (30,677) | (501) | (77) | (100,812) |
| Financial liabilities designated as at fair value through profit or loss and held for trading | (109,441) | (4,367) | (84) | (7) | (113,899) |
| Derivative financial liabilities | (1,904) | (2,423) | (160) | (3,203) | (7,690) |
| Deposits from customers | (7,404,694) | (69,921) | (12,934) | (10,069) | (7,497,618) |
| Debt securities issued | (49,955) | (342) | (4,882) | — | (55,179) |
| Other financial liabilities | (118,388) | (804) | (409) | (115) | (119,716) |
| **Total financial liabilities** | (8,205,215) | (246,552) | (27,222) | (16,244) | (8,495,233) |
| **Net balance sheet position** | **193,098** | **27,925** | **1,935** | **302** | **223,260** |

The appreciation of the Renminbi to the U.S. dollar or any other foreign currency will result in a decrease in the value of assets which are denominated in foreign currencies. See "Risk Factors—Risks Relating to China—We are subject to PRC government controls on currency conversion and future movements in exchange rates." In 2009, we entered into foreign exchange arrangements, which reduced our overall exchange rate risk by eliminating our exchange rate risk exposure arising from the US$19.0 billion capital contribution from Huijin. This capital contribution significantly increased our foreign currency assets.

The following table sets forth, for the years indicated, the changes in our profit before tax caused by appreciation or depreciation by 1% of the Renminbi's spot and forward exchange rates to U.S. dollars and Hong Kong dollars, in which substantially all of our foreign currency-denominated financial assets and liabilities are denominated, at the date indicated.

| | | For the year ended December 31, | | |
|---|---|---|---|---|
| | | 2007 | 2008 | 2009 |
| | | (in millions of RMB) | | |
| U.S. dollar | +1% | 937 | 1,650 | 269 |
| | -1% | (937) | (1,650) | (269) |
| Hong Kong dollar | +1% | (33) | (31) | 3 |
| | -1% | 33 | 31 | (3) |

The following table sets forth, at the date indicated, a breakdown of our debt instruments denominated in the U.S. dollar by issuer type.

| | At December 31, 2009 | |
|---|---|---|
| | Amount | % of total |
| | (in millions of RMB, except percentages) | |
| Government bonds | 25,899 | 34.0% |
| Bonds issued by PRC policy banks | 1,361 | 1.8 |
| Bonds issued by other banks and financial institutions | 36,635 | 48.1 |
| Bonds issued by entities in public sectors and quasi-governments | 6,777 | 8.9 |
| Corporate bonds | 5,448 | 7.2 |
| **Total** | **76,120** | **100.0%** |

In managing our interest rate risk and exchange rate risk, including such risks arising from our transactions with customers, we use certain financial derivatives. Financial derivatives are measured at fair value on initial recognition, including interest rate swaps, currency forwards, currency swaps, cross-currency interest rate swaps and currency options. 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. Currency forwards 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. Currency swaps are transactions in which we and a counterparty simultaneously enter into a spot currency exchange contract and a forward reverse exchange contract. Cross-currency interest rate swaps are agreements between us and a counterparty to exchange principal and interest in one currency for the same in another currency. Currency options are currency exchange agreements which grant rights to buy or sell foreign currency-denominated assets at an agreed exchange rate on a specified date or within a specified period. We do not treat these derivative instruments as hedging instruments under IAS 39.

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

| | At December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2007 | | | 2008 | | | 2009 | | |
| | Notional amount | Fair value Assets | Fair value Liabilities | Notional amount | Fair value Assets | Fair value Liabilities | Notional amount | Fair value Assets | Fair value Liabilities |
| | (in millions of RMB) | | | | | | | | |
| **Interest rate derivatives** | | | | | | | | | |
| Interest rate swaps | 140,062 | 1,218 | (1,422) | 104,456 | 2,386 | (4,599) | 113,644 | 932 | (1,864) |
| Other interest rate derivatives | 730 | — | (102) | 1,094 | 38 | (132) | 751 | — | (15) |
| Subtotal | | 1,218 | (1,524) | | 2,424 | (4,731) | | 932 | (1,879) |
| **Exchange rate derivatives** | | | | | | | | | |
| Currency forwards | 140,835 | 2,013 | (3,696) | 103,294 | 2,565 | (2,872) | 110,467 | 1,546 | (2,271) |
| Currency swaps | 95,212 | 1,768 | (913) | 98,730 | 777 | (1,448) | 100,550 | 411 | (374) |
| Cross-currency interest rate swaps | 64,668 | 5,207 | (1,160) | 13,429 | 1,384 | (2,482) | 12,503 | 1,729 | (3,140) |
| Currency options | 292 | 1 | (1) | 6 | 1 | (1) | 81 | 2 | (1) |
| Subtotal | | 8,989 | (5,770) | | 4,727 | (6,803) | | 3,688 | (5,786) |
| **Other derivatives** | | | | | | | | | |
| Precious metal forwards | — | — | — | — | — | — | 105 | — | (5) |
| Precious metal swaps | — | — | — | — | — | — | 903 | 58 | (20) |
| Subtotal | | — | — | | — | — | | 58 | (25) |
| **Total** | | **10,207** | **(7,294)** | | **7,151** | **(11,534)** | | **4,678** | **(7,690)** |

### Certain Information of Financial Assets and Liabilities Accounted for at Fair Value

The following tables set forth certain information of our financial assets and liabilities accounted for at fair value.

***From December 31, 2008 to December 31, 2009***

| | Opening balance | Profit or loss from changes in fair value | Transfer to investment revaluation reserve from changes in fair value | Write-back/ (provision) | Closing balance |
|---|---|---|---|---|---|
| | (in millions of RMB) | | | | |
| Non-derivative financial assets | | | | | |
| Financial assets held for trading | 19,688 | (433) | — | — | 15,346 |
| Financial assets designated as at fair value through profit or loss | 20,329 | 263 | — | — | 96,830 |
| Available-for-sale financial assets | 800,205 | — | 6,182 | 4,427 | 730,382 |
| Subtotal | 840,222 | (170) | 6,182 | 4,427 | 842,558 |
| Derivative financial assets | 7,151 | (2,473) | — | — | 4,678 |
| **Total financial assets** | 847,373 | (2,643) | 6,182 | 4,427 | 847,236 |
| **Financial liabilities** | (34,211) | 5,731 | — | — | (121,589) |

*From December 31, 2007 to December 31, 2008*

| | Opening balance | Profit or loss from changes in fair value | Transfer to investment revaluation reserve from changes in fair value | Write-back/ (provision) | Closing balance |
|---|---|---|---|---|---|
| | (in millions of RMB) | | | | |
| Non-derivative financial assets | | | | | |
| Financial assets held for trading | 8,340 | 495 | — | — | 19,688 |
| Financial assets designated as at fair value through profit or loss | 8,865 | (697) | — | — | 20,329 |
| Available-for-sale financial assets | 529,343 | — | 23,132 | (10,062) | 800,205 |
| Subtotal | 546,548 | (202) | 23,132 | (10,062) | 840,222 |
| Derivative financial assets | 10,207 | (3,056) | — | — | 7,151 |
| **Total financial assets** | 556,755 | (3,258) | 23,132 | (10,062) | 847,373 |
| **Financial liabilities** | (17,782) | (5,390) | — | — | (34,211) |

**Certain Information of Financial Assets and Liabilities Denominated in Foreign Currencies**

The following tables set forth certain information of the financial assets and liabilities denominated in foreign currencies.

*From December 31, 2008 to December 31, 2009*

| | Opening balance | Profit or loss from changes in fair value | Transfer to investment revaluation reserve from changes in fair value | Write-back/ (provision) | Closing balance |
|---|---|---|---|---|---|
| | (in millions of RMB) | | | | |
| Cash and balances with central banks | 6,077 | — | — | — | 6,963 |
| Deposits with banks and other financial institutions | 56,538 | — | — | — | 41,814 |
| Placements with banks and other financial institutions | 24,437 | — | — | (4) | 29,844 |
| Financial assets held for trading | — | — | — | — | — |
| Financial assets designated as at fair value through profit or loss | 4,267 | (7) | — | — | 8,867 |
| Derivative financial assets | 5,757 | (2,501) | — | — | 3,257 |
| Financial assets held under resale agreement | — | — | — | — | 171 |
| Loans to customers | 77,299 | — | — | (1,807) | 151,259 |
| Available-for-sale financial assets | 108,009 | — | 116 | 4,429 | 50,499 |
| Held-to-maturity investments | 22,594 | — | — | 7 | 25,747 |
| Debt securities classified as receivables | 6 | — | — | — | 6 |
| Other financial assets | 1,091 | — | — | — | 1,753 |
| **Total financial assets** | 306,075 | (2,508) | 116 | 2,625 | 320,180 |
| **Total financial liabilities** | (139,390) | 6,842 | — | — | (290,018) |

*From December 31, 2007 to December 31, 2008*

| | Opening balance | Profit or loss from changes in fair value | Transfer to investment revaluation reserve from changes in fair value | Write-back/ (provision) | Closing balance |
|---|---|---|---|---|---|
| | (in millions of RMB) | | | | |
| Cash and balances with central banks | 7,200 | — | — | — | 6,077 |
| Deposits with banks and other financial institutions | 8,656 | — | — | — | 56,538 |
| Placements with banks and other financial institutions | 38,912 | — | — | (4) | 24,437 |
| Financial assets held for trading | — | — | — | — | — |
| Financial assets designated as at fair value through profit or loss | 6,547 | (541) | — | — | 4,267 |
| Derivative financial assets | 7,326 | (1,569) | — | — | 5,757 |
| Financial assets held under resale agreement | 4,274 | — | — | — | — |
| Loans to customers | 85,054 | — | — | (619) | 77,299 |
| Available-for-sale financial assets | 77,909 | — | (827) | (10,059) | 108,009 |
| Held-to-maturity investments | 13,836 | — | — | 61 | 22,594 |
| Debt securities classified as receivables | 158 | — | — | — | 6 |
| Other financial assets | 1,625 | — | — | — | 1,091 |
| **Total financial assets** | 251,497 | (2,110) | (827) | (10,621) | 306,075 |
| **Total financial liabilities** | (154,362) | (9,194) | — | — | (139,390) |

## CAPITAL EXPENDITURES

Our capital expenditures in 2009, 2008 and 2007 were primarily made for the construction and improvements of our branch outlets, purchases of ATMs, development of our information system and purchases of computers and other electronic equipment.

Our capital expenditures increased by 33.4% to RMB19.9 billion in 2009 compared to RMB14.9 billion in 2008, which in turn increased by 27.0% compared to RMB11.7 billion in 2007. At December 31, 2009, we had authorized capital commitments of RMB7.3 billion, of which RMB6.2 billion were contracted for, and RMB1.1 billion were authorized but not contracted for. The foregoing amounts and purposes may change depending on business conditions.

## CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

In the application of our accounting policies described in Note IV of the Accountants' Report included in Appendix I to this prospectus, the management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgments and key estimation uncertainty that the management have made in the process of applying our accounting policies and that have the most significant effect on the amounts recognized in the Accountants' Report included in Appendix I to this prospectus.

**Impairment Losses on Loans**

Loan portfolios are assessed periodically to determine whether there is any objective evidence that impairment of a loan or portfolio of loans has occurred, and if it exists, the amount of impairment losses. A loan or portfolio of loans is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that event (or events) has an impact on the estimated future cash flows of the loan or portfolio of loans that can be reliably estimated.

Loans which are considered individually significant, consisting of all our corporate loans and discounted bills, 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 expected 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.

We do not set aside separate allowance for impairments incurred but not yet identified for an individually significant loan (i.e., a corporate loan or discounted bill). 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.

**Fair value of derivatives and other financial instruments**

We use the valuation technique for financial instruments which are not quoted in an active market. Valuation techniques include the use of discounted cash flows analysis, option pricing models or other valuation methods as appropriate. To the extent practical, models use only observable data, however areas such as credit risk both ours and our counterparty's, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

**Held-to-maturity investments**

We classify non-derivative financial assets with fixed or determinable payments and fixed maturity that our management has the positive intention and ability to hold to maturity as held-to-maturity investments. This classification requires significant judgment. In making this judgment, we evaluate our management's intention and ability to hold such investments to maturity. If we fail to hold these investments to maturity other than for specific circumstances (such as selling an insignificant amount close to maturity), the entire portfolio of assets will be reclassified as available-for-sale financial assets.

**Impairment of held-to-maturity investments**

The determination of whether a held-to-maturity financial asset is impaired requires judgment. Objective evidence that a financial asset or group of assets is impaired includes a breach of contract, such as, among other things, a default or delinquency in interest or principal payments or the disappearance of an active market for that financial asset because of significant financial difficulty of the issuer. In making this judgment, the impact of objective evidence for impairment on expected future cash flow of the investment is taken into account.

### Impairment of available-for-sale financial assets

The determination of whether an available-for-sale financial asset is impaired requires significant judgment. In making this judgment, we evaluate the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, credit ratings, delinquency rates and counterparty risk.

### Taxes

There are certain transactions and activities for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcomes of these matters are different from the amounts that were initially estimated, such differences will impact the current income tax and deferred income tax for the period during which such a determination is made.

### Employee early retirement benefits obligations

We recognize liabilities in connection with early retirement benefits of employees in domestic institutions using the projected unit credit actuarial cost method based on various assumptions, including the discount rate, average medical expense increase rate, costs of living adjustments for early retirements and other factors. Actual results may differ from the result of the projected amount. Any difference between the actual result or changes in assumptions may affect the amount of expense recognized in the consolidated statements of financial position and the corresponding liability.

### Provision

We use judgment to assess whether we have a present legal or constructive obligation as a result of past events at each of the reporting periods, and judgment is used to determine if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and to determine a reliable estimate of the amount of the obligation. When making the judgment, we considered risks and uncertainty attached to the event and time value.

## INDEBTEDNESS

At April 30, 2010, we had the following indebtedness:

(a) subordinated bonds in an aggregate amount of RMB50 billion issued in May 2009, including (i) fixed rate subordinated bonds in an aggregate principal amount of RMB20 billion with a final maturity date of May 20, 2019, the interest rate on which is 3.3% for the first five years, to be stepped up to 6.3% if the bonds are not called by us at the fifth anniversary, (ii) fixed rate subordinated bonds in an aggregate principal amount of RMB25 billion with a final maturity date of May 20, 2024, the interest rate on which is 4.0% for the first ten years, to be stepped up to 7.0% if the bonds are not called by us at the tenth anniversary, and (iii) floating rate subordinated bonds in an aggregate principal amount of RMB5 billion with a final maturity date of May 20, 2019, the interest rate on which is the PBOC benchmark rate on one-year time deposit plus 0.6% for the first five years, to be stepped up to such benchmark rate plus 3.6% if the bonds are not called by us at the fifth anniversary;

(b) certificates of deposit in an aggregate principal amount of RMB8,014 million;

(c) 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 carried out by us; and

(d) loan commitments, acceptances, letters of credit and letters of guarantee issued, other commitments and contingencies (including pending litigation) that arose from the normal course of banking business carried out by us.

Except as disclosed above, we did not have, at April 30, 2010, any outstanding mortgages, charges, debentures, other debt 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 change in the indebtedness or contingent liabilities of our company since April 30, 2010.

## PROPERTY INTERESTS AND VALUATION OF PROPERTIES

For the purpose of the listing of our H shares on the Hong Kong Stock Exchange, our properties were valued at RMB126,662 million (including the commercial and reference value) at March 31, 2010 by Jones Lang LaSalle Sallmanns Limited. Details of the valuation are summarized in Appendix VI to this prospectus. In accordance with our accounting policies, all properties are stated at cost less accumulated depreciation. At December 31, 2009, the carrying value of our properties comprising land, buildings and construction in progress amounted to RMB120,711 million. Any net valuation surplus arising from the valuation of properties has not been included in the unaudited pro forma adjusted consolidated net tangible assets under "—Unaudited Pro Forma Adjusted Consolidated Net Tangible Assets."

## 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 Listing Rules.

## PROFIT FORECAST FOR THE YEAR ENDING DECEMBER 31, 2010

The statistics set forth in the table below do not give effect to the A Share Offering and are based on the assumption that (i) the Global Offering is completed and (ii) the over-allotment option for the Global Offering is not exercised.

| | |
|---|---|
| Forecast consolidated net profit attributable to our shareholders(1) | Not less than RMB82.91 billion |
| Forecast earnings per share | |
| (a) pro forma basis(2) | RMB0.284 (HK$0.325) |
| (b) weighted average basis(3) | RMB0.298 (HK$0.341) |

(1) The bases and assumptions on which the above profit forecast for the year ending December 31, 2010 has been prepared are set out in Appendix V to this prospectus.

(2) The calculation of the forecast earnings per share on a pro forma basis in accordance with Listing Rule 4.29(8) is based on our forecast consolidated net profit attributable to our shareholders for the year ending December 31, 2010, and an assumption that a weighted average number of shares issued and outstanding during the year ending December 31, 2010 would be 292,370,669,110. The weighted average number of shares, 292,370,669,110, is calculated on the basis that there were 260,000,000,000 shares issued and outstanding as of December 31, 2009, 10,000,000,000 shares were issued on April 22, 2010 upon the completion of the investment by the SSF and 25,411,765,000 H shares to be issued pursuant to the Global Offering had been issued and outstanding as of January 1, 2010.

(3) The calculation of the forecast earnings per share on a weighted average basis in accordance with International Accounting Standard 33 is based on the forecast consolidated net profit attributable to our shareholders for the year ending December 31, 2010 and an assumption that a weighted average number of shares issued and outstanding during the year ending December 31, 2010 would be 278,724,899,411. The weighted average number of shares, 278,724,899,411, is calculated on the basis that there were 260,000,000,000 shares issued and outstanding as of December 31, 2009, 10,000,000,000 shares were issued on April 22, 2010 upon the completion of the investment by the SSF and 25,411,765,000 H shares to be issued pursuant to the Global Offering will be issued on July 16, 2010.

The statistics set forth in the table below are based on the assumption that (i) both the A Share Offering and the Global Offering are completed and (ii) neither of the over-allotment options for the A Share Offering and the Global Offering is exercised.

| | |
|---|---|
| Forecast consolidated net profit attributable to our shareholders(1) | Not less than RMB82.91 billion |
| Forecast earnings per share | |
| (a) pro forma basis(2) | RMB0.264 (HK$0.302) |
| (b) weighted average basis(3) | RMB0.287 (HK$0.329) |

(1) The bases and assumptions on which the above profit forecast for the year ending December 31, 2010 has been prepared are set out in Appendix V to this prospectus.

(2) The calculation of the forecast earnings per share on a pro forma basis in accordance with Listing Rule 4.29(8) is based on the forecast consolidated net profit attributable to our shareholders for the year ending December 31, 2010, and an assumption that a weighted average number of shares issued and outstanding during the year ending December 31, 2010 would be 314,605,963,110. The weighted average number of shares, 314,605,963,110, is calculated on the basis that there were 260,000,000,000 shares issued and outstanding as of December 31, 2009, 10,000,000,000 shares were issued on April 22, 2010 upon the completion of the investment by the SSF and 22,235,294,000 A shares and 25,411,765,000 H shares to be issued pursuant to the A Share Offering and the Global Offering had been issued on January 1, 2010.

(3) The calculation of the forecast earnings per share on a weighted average basis in accordance with International Accounting Standard 33 is based on the forecast consolidated net profit attributable to our shareholders for the year ending December 31, 2010, and an assumption that a weighted average number of shares issued and outstanding during the year ending December 31, 2010 would be 289,081,063,740. The weighted average number of shares, 289,081,063,740, is calculated on the basis that there were 260,000,000,000 shares issued and outstanding as of December 31, 2009, 10,000,000,000 shares were issued on April 22, 2010 upon the completion of the investment by the SSF and 22,235,294,000 A shares and 25,411,765,000 H shares to be issued pursuant to the A Share Offering and the Global Offering will be issued on July 15, 2010 and July 16, 2010, respectively.

## DIVIDEND POLICY

Our Board of Directors is responsible for submitting proposals (adopted by a two-thirds majority) in respect of dividend payments, if any, to the shareholders' general meeting for approval. The determination of whether to pay dividends and the amount of such dividends is based on our results of operations, cash flows, 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 of Directors considers relevant. Under the PRC 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. Under PRC laws, we may only pay dividends out of our distributable profit. Our distributable profit represents the lowest of (i) our consolidated net profit attributable to our equity holders for a period plus the distributable profit or net of the accumulated losses, if any, at the beginning of such period as determined under PRC GAAP, (ii) the unconsolidated net profit of our Bank for the period plus distributable profit or net of accumulated losses, if any, at the beginning of such period, as determined under PRC GAAP, (iii) our consolidated net profit attributable to our equity holders for the period plus distributable profit or net of accumulated losses, if any, at the beginning of such period, as determined under IFRS, and (iv) the unconsolidated net profit of our Bank for the period plus distributable profit or net of accumulated losses, if any, at the beginning of such period, as determined under IFRS, less:

- appropriations we are required to make to the statutory surplus reserve, which is currently 10% of the unconsolidated net profit of our Bank as determined under PRC GAAP, until such reserve reaches an amount equal to 50% of our registered capital;
- a 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 recent MOF regulations, we are required, in principle, to maintain a general reserve no less than 1% of the balance of our risk-bearing assets from our net profits after tax. This general reserve constitutes part of our reserves.

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 dividends by us must also be approved at a shareholders' general meeting. We are prohibited from making any profit distributions to our shareholders before recovering our accumulated losses and making appropriations to the statutory surplus reserve and the general reserve. If we make any profit distributions in violation of these rules, our shareholders are required to return the amounts they received in such profit distributions to us.

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—PRC Banking Supervision and Regulation—Supervision Over Capital Adequacy—CBRC Supervision of Capital Adequacy" and "Supervision and Regulation—PRC Banking Supervision and Regulation—Principal Regulators—CBRC." At December 31, 2009, we had a capital adequacy ratio of 10.07% and a core capital adequacy ratio of 7.74%.

At our annual general meeting of shareholders on June 17, 2009, our shareholders approved that no dividend distribution be made in respect of the year 2008.

We have been making appropriations to the general reserve out of our Bank's net profit since 2008 to meet the MOF's regulatory requirements. At December 31, 2009, the balance of our general reserve amounted to RMB10,772 million. On April 21, 2010, our shareholders at an extraordinary general meeting adopted a resolution to distribute our net profit for the year ended December 31, 2009 and proposals on profit distributions before and after our proposed initial public offering. Pursuant to this profit distribution plan, we made an appropriation of RMB38,386 million to the general reserve. After giving effect to the above profit distribution plan, the balance of our general reserve would be RMB49,158 million at December 31, 2009. For the six months ended June 30, 2010, we will allocate 20% of the unconsolidated net profit of our Bank, as determined under the PRC GAAP, to our general reserve. If, at the end of June 2010, there is still any shortfall in our general reserve, we will allocate sufficient funds to the general reserve before we distribute our profit in respect of the year of 2010.

Pursuant to the above resolution, we also made appropriations of RMB6,489 million to the statutory surplus reserve (which was included in the balance of our surplus reserve at December 31, 2009), representing 10% of the audited unconsolidated net profit of our Bank in accordance with PRC GAAP, and a cash dividend to the MOF and Huijin in the aggregate amount of RMB20 billion. In proportion to their shareholdings in us, each of the MOF and Huijin is entitled to a cash dividend of RMB10 billion.

At the same general meeting, our shareholders also adopted the following proposals on dividend distributions and policies before and after our proposed initial public offering:

- in respect of the six months ended June 30, 2010, the declaration of a cash dividend (the "Special Dividend") to shareholders on our register of members as of June 30, 2010 in an amount equal to the sum of (i) our audited net profit for the six months ended June 30, 2010, after the required appropriations for a statutory surplus reserve and a general reserve that amounts to 10% and 20%, respectively, of the unconsolidated net profit of our Bank for the six months ended June 30, 2010 as determined under PRC GAAP, and (ii) any undistributed profits from previous years, represented by the retained earnings of our Bank at December 31, 2009 as shown on its audited unconsolidated financial statements in an amount of RMB58.4 billion, net of the RMB20 billion cash dividend to the MOF and Huijin and the appropriation of RMB38.4 billion to the general reserve. The amount of our audited net profit referred to in (i) above represents the lowest amount among the consolidated net profit attributable to our equity holders and the unconsolidated net profit of our Bank for the six months ended June 30, 2010, in accordance with PRC GAAP and IFRS, respectively, as determined following an audit (the "Special Audit") of our net profit for the six months ended June 30, 2010. If there are any changes in our shareholding structure during the six months ended June 30, 2010, the dividend allocated to each new shareholder will be calculated based on the actual number of days such shareholder has held our shares starting from the date of completion of relevant the share purchase transaction. The Board of Directors is authorized by our shareholders to arrange the distribution of the Special Dividend; and
- in respect of the period from July 1, 2010 to December 31, 2010, subject to the applicable PRC laws on dividend distributions as summarized above (including the requirement of appropriation to the general reserve), the declaration of a cash dividend to eligible shareholders as of the record date for the dividend distributions in respect of the second half of 2010 in an amount equal to 35% to 50% of our audited net profit for the year ending December 31, 2010 after the deduction of our net profit for the six months ended June 30, 2010 (in accordance with PRC GAAP or IFRS and based on the consolidated net profit attributable to our equity holders or the unconsolidated net profit of our Bank, whichever is the lowest).

Pursuant to the applicable requirements of the Hong Kong Stock Exchange, we will only declare and pay the Special Dividend after the completion of the Special Audit, following which we will publish an announcement of the actual amount of the Special Dividend. Our directors consider our cash resources are sufficient to cover the full payment of the Special Dividend.

In respect of each of the years ending December 31, 2011 and 2012, our Board of Directors currently contemplates a dividend distribution of 35% to 50% of our audited net profit (in accordance with PRC GAAP or IFRS and based on the consolidated net profit attributable to our equity holders or the unconsolidated net profit of our Bank, whichever is the lowest) for the relevant year, subject to the applicable PRC laws on dividend distributions as summarized above.

## UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following statement of our unaudited pro forma adjusted consolidated net tangible assets is prepared based on our unaudited consolidated net tangible assets at March 31, 2010, as shown in the Unaudited Interim Financial Information, the text of which is set forth in Appendix II to this prospectus, adjusted as described below.

The statement of unaudited pro forma adjusted consolidated net tangible assets has been prepared to show the effect on our unaudited consolidated net tangible assets at March 31, 2010 as if the Global Offering had occurred on March 31, 2010. The unaudited pro forma adjusted consolidated net tangible assets per share is calculated in accordance with Listing Rules 4.29.

The statistics in the table below do not give effect to the annual dividend for the year ended December 31, 2009 and the Special Dividend. At an extraordinary general meeting of shareholders on April 21, 2010, our shareholders approved an annual dividend of RMB20 billion for the year ended December 31, 2009 to be paid to our existing shareholders. At the same meeting, our shareholders also approved the resolution of the Special Dividend. The amount of the Special Dividend will be determined upon the conclusion of the Special Audit. We will publicly announce the effect of the Special Dividend on the unaudited pro forma adjusted consolidated net tangible assets per share as of March 31, 2010 as soon as practicable upon conclusion of the Special Audit and determination of the amount of the Special Dividend. For further details relating to the Special Dividend and arrangements relating to the Special Audit, see "—Dividend Policy."

The statement of the unaudited pro forma adjusted consolidated net tangible assets of our bank has been prepared for illustrative purposes only and, as a result, may not be an accurate reflection of our financial position.

| | Unaudited consolidated net tangible assets at March 31, 2010[(1)] | Estimated net proceeds from the Global Offering[(2)] | Unaudited pro forma adjusted consolidated net tangible assets[(3)(5)] | Unaudited pro forma adjusted consolidated net tangible assets per share[(4)] | |
|---|---|---|---|---|---|
| | | (in millions of RMB) | | (RMB) | (HK$)[(6)] |
| Based on the Offer Price of HK$2.88 per Offer Share | 368,663 | 62,881 | 431,544 | 1.512 | 1.732 |
| Based on the Offer Price of HK$3.48 per Offer Share | 368,663 | 75,921 | 444,584 | 1.558 | 1.785 |

(1) The consolidated net tangible assets attributable to our shareholders as of March 31, 2010 is compiled based on the Unaudited Interim Financial Information set out in Appendix II to the prospectus, which is based on the unaudited consolidated net assets at March 31, 2010 of RMB370,154 million with an adjustment for intangible assets of RMB1,491 million at March 31, 2010.

(2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK$2.88 per share and HK$3.48 per share, after deduction of the underwriting fees and other related expenses payable by us and takes no account of any shares which may be issued upon the exercise of the over-allotment option for the Global Offering.

(3) The unaudited pro forma adjusted consolidated net tangible assets do not take into account the effect of the net profit for the period from and including April 1, 2010 to the date immediately preceding the date of the Global Offering and the distribution of such net profit to our shareholders.

(4) The unaudited pro forma adjusted consolidated net tangible assets per share is arrived at after the adjustments referred to in note (2) above and on the basis that 285,411,765,000 shares are issued and outstanding following the completion of the Global Offering and that the over-allotment option for the Global Offering is not exercised, without giving effect to the subscription of 10,000,000,000 shares by the SSF on April 22, 2010. If the over-allotment option for the Global Offering is exercised, the unaudited pro forma adjusted consolidated net tangible assets per share would increase. Had effect been given to the A Share Offering in this calculation, the unaudited pro forma adjusted consolidated net tangible assets per share would have been HK$1.813 or RMB1.582 based on the Offer Prices of HK$2.88 per H share and RMB2.52 per A share and HK$1.874 or RMB1.636 based on the Offer Prices of HK$3.48 per H share and RMB2.68 per A share. This calculation is based on the assumption that there were 22,235,294,000 newly issued A shares in the A Share Offering (assuming the over-allotment option for the A Share Offering is not exercised) and the resulting net proceeds (after deduction of the estimated underwriting fees and other related expenses payable by us) of RMB55.25 billion (based on the Offer Price of RMB2.52 per A share) and RMB58.76 billion (based on the Offer Price of RMB2.68 per A share) from the A Share Offering.

(5) Details of the valuation of the Group's properties at March 31, 2010 are set out in Appendix VI to this prospectus. The unaudited carrying value of the Group's properties at March 31, 2010 was not substantially different from the valuation of the Group's properties as included in Appendix VI to this prospectus.

(6) The translation of Renminbi into Hong Kong dollars has been made at the rate of RMB0.8729 to HK$1.00, the exchange rate set by the PBOC prevailing at June 25, 2010. No representation is made that the Hong Kong dollar amounts have been, could have been or could be converted to Renminbi, or vice versa, at that rate, or at any other rate or at all.

## NO MATERIAL ADVERSE CHANGE

Our directors confirm that there has been no material adverse change in our financial or trading position since December 31, 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 Company is sufficient for at least 12 months from the publication of this prospectus 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 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.