This section contains certain information which is derived from official government publications. While we have exercised reasonable care in compiling and reproducing such information, it has not been independently verified by us or any of our affiliates or advisors, nor by the Underwriters or any of their affiliates or advisors. This information may not be consistent with other information compiled within or outside China. In addition, certain financial data contained in this section, including data relating to us, have been determined in accordance with PRC GAAP, and differ from financial data of our bank presented elsewhere in this prospectus.

OVERVIEW

China's economy has grown rapidly since its economic reform in the late 1970s, a trend which has accelerated in the past decade. According to the National Bureau of Statistics, from 2001 to 2005, China's GDP grew at a compound annual growth rate of 9.8%, making China one of the fastest growing economies in the world. With a GDP of RMB18,309 billion, China's economy was the fourth largest in the world in 2005, according to the Economist Intelligence Unit. China's economic development, however, has been uneven geographically. Economic development in the eastern coastal regions, in particular the Yangtze River Delta, the Pearl River Delta and the Bohai Rim, is relatively more advanced than in other regions. In 2005, these three regions accounted for 34.8% of China's population but contributed to 59.3% of China's GDP.

As a critical part of the overall economy, China's banking industry has also grown rapidly. Banks remain the primary choice for domestic savings and the primary provider of capital in China. According to the China Statistics Summary 2006, in 2005, among (i) bank loans, (ii) debt issuances and (iii) equity issuances, the three principal sources of capital for Chinese corporations, financing through bank loans accounted for 80.8%, while financing through debt and equity issuances accounted for only 19.2%.

The following table sets forth, for the periods indicated, RMB-denominated deposits and RMB-denominated loans and the respective compound annual growth rates for banking institutions in China.

	At December 31,					Compound Annual Growth Rate
	2001	2002	2003	2004	2005	(2001-2005)
	(in billions of RMB)					
RMB-denominated deposits(1)	14,361.7	17,091.7	20,805.6	24,052.5	28,717.0	18.9%
RMB-denominated loans(1)	11,231.5	13,129.4	15,899.6	17,736.3	19,469.0	14.7%

Source: PBOC Quarterly Statistical Reports.

(1) Consists, as applicable, of the deposits or loans of the PBOC, the Big Four, Other National Commercial Banks, city commercial banks, policy banks, urban credit cooperatives, rural credit cooperatives, finance companies, trust and investment companies, financial leasing companies and the postal savings bureau.

CURRENT COMPETITIVE LANDSCAPE

Historical Factors

China had a centrally planned economy from the establishment of the PRC in 1949 to the late 1970s. As a result, China's banking industry operated primarily as a centrally controlled system, where the PBOC served as China's central bank as well as the primary deposit taking and lending institution. Other state owned banks, in particular, the China Construction Bank, the Agricultural Bank of China and the Bank of China, were primarily responsible for conducting policy lending activities (*i.e.*, loans backed by the credit of the PRC government to finance large-scale projects or initiatives in furtherance of government policy) as an extension of the PBOC.

China began to implement economic reform measures in the late 1970s, which included significant reforms for China's banking industry. The Agricultural Bank of China, the Bank of China and China Construction Bank became independent institutions specializing in agriculture financing, foreign exchange and trade financing, and construction and infrastructure financing, respectively, and the Industrial and Commercial Bank of China ("ICBC") was established in 1984 to be primarily responsible for urban commercial financing. As a result, most of China's commercial banking activities began to be conducted by these four banks, which came to be known as the "Big Four," while the PBOC focused on acting as China's central bank and as the principal regulator and supervisor of China's banking system. In 1995, the PRC Commercial Banking Law and the PRC PBOC Law were enacted to define more clearly the permitted scope of business of commercial banks and the functions and powers of PBOC as the central bank and China's bank regulator. In 2003, the CBRC was established as the primary bank regulator and assumed the majority of the regulatory functions of the PBOC. See "Regulation and Supervision — PRC Regulation and Supervision — Principal Regulators — CBRC."

Starting from the late 1980s, as part of the efforts to increase competition in the domestic banking industry, the PRC government encouraged the establishment of additional national commercial banks, local commercial banks and other non-bank financial institutions. At March 31, 2006, there were 13 Other National Commercial Banks in China. Other than China CITIC Bank, which is currently in the process of being converted to a joint stock commercial bank, each of these national commercial banks was either established as, or was converted into, a joint stock commercial bank. The market share of these Other National Commercial Banks in China's banking industry has been expanding. See "— Current Competitive Landscape — China's Banking Institutions — Other National Commercial Banks."

The current competitive landscape in China's banking industry is influenced by a number of historical factors, including:

Non-performing Loans and Restructuring of the Big Four. China's banking industry has been historically burdened with large portfolios of non-performing loans. Since the late 1990s, the PRC government has taken numerous initiatives to improve the asset quality and strengthen the capital base of the Big Four.

- In 1998, the MOF issued special government bonds and contributed RMB270.0 billion to the Big Four as equity to improve their capital adequacy.
- In 1999, the PRC government established four asset management companies to acquire and manage non-performing assets of the Big Four.
- In 1999 and 2000, the Big Four transferred a significant amount of non-performing loans to the asset management companies.
- In 2003, the PRC government, through China SAFE Investments Limited, previously known as Central Huijin Investment Co., Ltd. ("Huijin"), contributed US$22.5 billion as equity to each of Bank of China and China Construction Bank, and in 2005, Huijin contributed US$15 billion as equity to ICBC.

- In 2003 and 2004, China Construction Bank and Bank of China disposed of an aggregate of RMB457.8 billion of non-performing loans by transferring them to asset management companies or writing off loans in the loss category.
- In 2005, ICBC similarly disposed of RMB705.0 billion of non-performing loans.
- Following such transactions, China Construction Bank, Bank of China and ICBC were restructured to become joint stock commercial banks.

In addition to the Big Four, in 2004, the MOF and Huijin also contributed in aggregate RMB8 billion as equity to Bank of Communications, and Bank of Communications transferred approximately RMB53 billion of non-performing loans to an asset management company.

Mainly as a result of such efforts, the asset quality of China's biggest commercial banks improved significantly. At June 30, 2006, outstanding non-performing loans at China's Big Four and Other National Commercial Banks totaled RMB1.2 trillion, representing a total non-performing loan ratio of 7.8% for such banks, and a non-performing loan ratio of 9.5% and 3.1%, for the Big Four and the Other National Commercial Banks, respectively, according to the CBRC. In addition, Bank of Communications and China Construction Bank conducted initial public offerings on the Hong Kong Stock Exchange in 2005, becoming the first two Chinese commercial banks listed overseas, and Bank of China completed its initial public offering on the Hong Kong Stock Exchange on June 1, 2006. See "— Industry Trends — Overseas Listing of China's Commercial Banks."

Underdeveloped Retail Banking and Non-interest-based Businesses. Despite the rapid development of loans and deposits, the banking industry in China is underdeveloped in certain respects, particularly in the retail banking sector and the provision of non-interest-based products and services. According to the PBOC, at December 31, 2004, retail loans represented 15.5% of total loans in China and 17.7% of China's 2004 GDP. By comparison, at December 31, 2004, retail loans as a percentage of total loans was 32.5% in the U.S. and 22.2% in Japan; and retail loans as a percentage of GDP for the year was 87.6% in the U.S. and 37.1% in Japan, according to the Economist Intelligence Unit.

According to the Economist Intelligence Unit, the ratio of non-interest income to total operating income for China's commercial banks and savings banks with assets over US$1 billion was 12.8% in 2004, substantially lower than corresponding ratio for banks in certain more developed economies. For example, the ratio of non-interest income to total operating income for Hong Kong's commercial banks and savings banks with assets over US$1 billion was 38.9% in 2004. As China's economy continues to expand, we expect retail banking and non-interest-based products and services to present major growth areas for China's commercial banks.

Uneven Geographic Development. In line with the uneven economic development in different regions, China's banking activities are also more concentrated in the Yangtze River Delta, the Pearl River Delta and the Bohai Rim. According to the Almanac of China's Finance and Banking, at December 31, 2004, loans and deposits from these three regions accounted for 60.7% and 58.3%, respectively, of the total loans and deposits in China.

China's Banking Institutions

China's banking institutions are generally divided into seven broad categories. The following table sets forth, at December 31, 2005, certain information relating to the total assets, deposits and loans of banking institutions in each category.

	At December 31, 2005					
	Total Assets		Total Deposits		Total Loans	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
	(in billions of RMB)					
Big Four	20,310.5	54.1%	17,390.6	57.7%	10,689.9	50.4%
Other National Commercial Banks[1]	5,852.7	15.6	5,020.2	16.6	3,553.6	16.8
City commercial banks	1,921.3	5.1	1,719.8	5.7	1,088.8	5.1
Rural credit cooperatives[2]	3,414.2	9.1	3,262.6	10.8	2,200.8	10.4
Urban credit cooperatives	187.4	0.5	181.8	0.6	113.1	0.5
Foreign-invested commercial banks	532.7	1.4	202.9	0.7	364.7	1.7
Others[3]	5,331.8	14.2	2,382.7	7.9	3,201.5	15.1
Total	37,550.6	100.0%	30,160.6	100.0%	21,212.4	100.0%

Sources: Annual reports of relevant banks, PBOC and CBRC.

(1) Also commonly known as "joint stock commercial banks," even though one member of this group, China CITIC Bank, is in the process of being converted to a joint stock commercial bank. The data do not include China Bohai Bank, which commenced commercial operations in February 2006.

(2) Consists of rural commercial banks and rural credit cooperatives and rural cooperative banks.

(3) Consists of policy banks, the postal savings bureau, finance companies, trust and investment companies and financial leasing companies.

Big Four. The Big Four play a major role in China's banking sector. Since their establishment, the Big Four have been the principal source of financing in China, particularly for state-owned enterprises. Each of these banks was originally established to focus on the banking needs of specific industries or sectors in China, but has since broadened its business scope and customer base. Although historically state-owned enterprises, certain members of the Big Four have undergone restructuring and become joint stock commercial banks. China Construction Bank is currently listed on the Hong Kong Stock Exchange, and the Bank of China on both the Hong Kong Stock Exchange and the SHSE. At December 31, 2005, total assets of the Big Four represented 54.1% of the total assets of banking institutions in China. The following table sets forth, at December 31, 2005, the number of branch outlets, total assets, deposits and loans of each of the Big Four.

	At December 31, 2005						
	Approximate Number of Branch Outlets	Total Assets		Total Deposits		Total Loans	
		Amount	% of Total	Amount	% of Total	Amount	% of Total
	(in billions of RMB, except percentages and number of branch outlets)						
Industrial and Commercial Bank of China	16,464	6,255.4	30.8%	5,617.7	32.3%	3,183.7	29.8%
Bank of China	11,019	4,740.0	23.3	3,699.5	21.3	2,235.3	20.9
Agricultural Bank of China	28,075	4,729.4	23.3	4,067.4	23.4	2,812.5	26.3
China Construction Bank	13,977	4,585.7	22.6	4,006.0	23.0	2,458.4	23.0
Total	69,535	20,310.5	100.0%	17,390.6	100.0%	10,689.9	100.0%

Sources: Annual reports of relevant banks, PBOC and CBRC.

Other National Commercial Banks. The Other National Commercial Banks in China have been playing an increasingly important role in China's banking industry. See "— Industry Trends — Increasing Market Share of the Other National Commercial Banks." The Other National Commercial Banks (except China CITIC Bank, which is in the process of converting into a joint stock company) are organized as joint stock companies in which equity ownership is distributed among the government and other investors. Five of the 13 Other National Commercial Banks (including us) are currently listed on a domestic stock exchange in China, and Bank of Communications is currently listed on the Hong Kong Stock Exchange. These national commercial banks are licensed to engage in commercial banking activities nationwide, and compete with the Big Four and other commercial banks in offering loans, taking deposits and providing other banking services. At December 31, 2005, total assets of the Other National Commercial Banks represented 15.6% of the total assets of banking institutions in China.

The following table sets forth, at December 31, 2005, the number of branch outlets, total assets, deposits and loans of each of the Other National Commercial Banks (other than China Bohai Bank, which commenced commercial operations in February 2006).

	At December 31, 2005			
	Approximate Number of Branch Outlets[1]	Total Assets	Total Deposits	Total Loans
	(in billions of RMB, except number of branch outlets)			
Bank of Communications[2]	2,607	1,423.4	1,220.8	771.4
China Merchants Bank[3]	456	734.6	634.4	472.2
China CITIC Bank	416	593.4	505.4	370.7
Shanghai Pudong Development Bank[3]	353	573.5	504.5	377.4
China Minsheng Bank[3]	240	557.4	488.8	381.3
China Everbright Bank	374	525.2	450.0	303.8
Industrial Bank	355	473.8	353.8	241.9
Huaxia Bank[3]	267	356.5	312.1	233.7
Guangdong Development Bank	496	335.1	303.2	207.2
Shenzhen Development Bank[4]	238	222.4	200.8	156.1
Evergrowing Bank	75	36.1	27.8	24.6
China Zheshang Bank	6	21.3	18.6	13.3
Total	5,883	5,852.7	5,020.2	3,553.6

Sources: Annual reports of relevant banks, PBOC and CBRC.

(1) Including the head office, branches, sub-branches and representative offices in China and overseas.

(2) Currently listed on the Hong Kong Stock Exchange.

(3) Currently listed on the SHSE.

(4) Currently listed on the Shenzhen Stock Exchange.

City Commercial Banks. City commercial banks are permitted to engage in commercial banking activities generally within specific geographic areas. At December 31, 2005, total assets of the city commercial banks represented 5.1% of the total assets of banking institutions in China.

Rural and Urban Credit Cooperatives. Rural and urban credit cooperatives provide a limited range of banking products and services, including deposit-taking, lending and settlement services, for small enterprises and local residents in rural and urban areas, respectively. Because of the rapid growth of other commercial banking institutions in the urban areas, in particular the establishment of city commercial banks, total assets of urban credit cooperatives as a percentage of the total assets of banking institutions in China have declined in recent years. At December 31, 2005, total assets of the rural credit cooperatives (including rural commercial banks) and urban credit cooperatives represented 9.1% and 0.5%, respectively, of the total assets of banking institutions in China.

Foreign-invested Banking Institutions. Foreign-invested banking institutions include foreign bank branches, wholly foreign-owned banks and joint venture banks. Similar to the other types of banking institutions in China, foreign-invested banking institutions are subject to supervision and regulation by the CBRC. In addition, they are currently subject to various restrictions on their operations for RMB-denominated businesses, including geographic presence, customer base and operational licenses. See "Regulation and Supervision — PRC Regulation and Supervision — Regulation of Foreign-invested Banking Institutions Operating in China." Such restrictions are expected to be lifted by December 2006 pursuant to China's WTO accession commitments, and China has already progressively opened certain RMB-denominated banking activities to foreign-invested commercial banks.

Other Banking Institutions. Other banking institutions include policy banks (*i.e.*, banks established by the PRC government to focus on policy lending), the postal savings bureau, trust and investment companies, finance companies, financial leasing companies and automobile finance companies. At December 31, 2005, the three policy banks (*i.e.*, the China Development Bank, the Export-Import Bank of China and the Agricultural Development Bank of China) represented 7.9% of the total assets of banking institutions in China. China's postal savings bureau operates through the nationwide network of post offices and offers savings deposits and remittance and a limited number of other banking services to individuals. At December 31, 2005, the postal savings bureau had deposits of RMB1,359.9 billion, representing 4.5% of the total deposits of banking institutions in China.

INDUSTRY TRENDS

Evolving Regulations and Regulatory Requirements

China's commercial banks are regulated by the CBRC and various PRC regulatory authorities. These regulatory authorities have in recent years promulgated numerous new rules and regulations, including:

- *Raising the statutory reserve requirement*. In July 2006 and August 2006, the PBOC twice increased the requirement for statutory deposit reserve by 0.5%, to 8.5% from 7.5%. The statutory reserve requirement was increased by 0.5% in April 2004 and 1.0% in September 2003.

- *Establishing a general provision requirement for risk-bearing assets.* Starting from July 2005, commercial banks in China are required by the MOF to set aside regulatory general reserve, generally not less than 1% of the year-end balance of their risk-bearing assets, to cover any possible unidentified impairment. A grace period of a maximum of five years is provided to meet this requirement.

- *Implementing new risk management and operational ratios.* The CBRC promulgated new requirements concerning certain risk management and operational ratios at the end of 2005 which became effective on January 1, 2006. The new regulations are currently in trial implementation and are subject to amendment. The requirements are designed to improve the recognition, evaluation and control of risks.

- *Strengthening supervision over capital adequacy.* In March 2004, the CBRC implemented a set of new and more stringent capital adequacy guidelines, requiring China's commercial banks to maintain a minimum capital adequacy ratio of 8% and a minimum core capital adequacy ratio of 4%. China's commercial banks are required to be in full compliance with such requirements starting January 1, 2007.

- *Improving corporate governance*. To improve corporate governance, China's commercial banks are required to establish a board of directors with certain minimum number of independent directors, a board of supervisors as well as audit, compensation and other board committees.

- *Enhancing internal control and risk management supervision.* The CBRC has promulgated a number of regulations in recent years to improve internal control and various areas of risk management practice of China's commercial banks.

See "Regulation and Supervision — PRC Regulation and Supervision" for more information regarding PRC regulations affecting the banking institutions. PRC's regulatory authorities are expected to continue to promulgate new rules and regulations in an effort to enhance risk management capabilities of China's commercial banks and to ensure the healthy development of China's banking industry.

Overseas Listing of China's Commercial Banks

To accelerate the development of the banking industry in China, China's commercial banks are increasingly looking to list their shares on overseas markets, particularly on the Hong Kong Stock Exchange, to enhance capitalization, increase internationalization and improve management capabilities. In June 2005, Bank of Communications, the largest national commercial bank after the Big Four, became the first Chinese bank to conduct an initial public offering on the Hong Kong Stock Exchange, followed in October 2005 by China Construction Bank, a member of the Big Four. Bank of China also completed its initial public offering on the Hong Kong Stock Exchange in June 2006. Prior to their respective listing on the Hong Kong Stock Exchange, these banks were extensively restructured and disposed of a substantial amount of non-performing loans, thereby significantly improving their asset qualities. See "— Current Competitive Landscape — Historical Factors." In addition, major international commercial banks and/or financial institutions made substantial investments in, and entered into certain commercial cooperation agreements with, Bank of Communications, China Construction Bank and Bank of China prior to their respective initial public offerings.

Increasing Market Share of the Other National Commercial Banks

The Big Four have historically represented a substantial portion of the total assets of banking institutions in China. The Other National Commercial Banks, however, have been increasing their market share in recent years. Total assets of the Other National Commercial Banks as a percentage of the total assets of banking institutions in China have grown in recent years, from 14.5% at December 31, 2003 to 15.6% at December 31, 2005. These Other National Commercial Banks generally focus on developing business in more developed regions and have gained market share by providing innovative products and high-quality customer services. As compared with the Big Four, we believe they are more adaptive to changing market conditions and more responsive to customer's special needs, and as compared with other regional banking institutions, they enjoy certain competitive advantages such as national distribution network, larger capital base, access to more resources, more diverse product and service offerings and advanced technology infrastructure. We expect that the Other National Commercial Banks will continue to gain market share in the near future.

Greater Participation by Foreign Banking Institutions

Historically, operations of foreign banks in China were subject to significant restrictions. Upon China's accession to the WTO in December 2001, China committed to lift such restrictions imposed on foreign-invested financial institutions by December 2006. Since then, China has gradually lifted restrictions, starting with foreign currency-denominated businesses. In addition, the PRC government has taken numerous initiatives to encourage foreign participation in China's banking industry, including:

- allowing foreign participation in the automobile finance sector;
- streamlining the procedures for foreign banking institutions to enter the Chinese market; and
- encouraging qualified overseas strategic investors to participate in the restructuring and reform of China's banking industry.

As a result, the number of foreign banking institutions, the geographic area where they conduct business and the scope and scale of their business have expanded significantly. The trend of greater foreign participation in China's banking industry is also reflected in the recent investments by major international commercial banks and financial institutions in China's commercial banks in connection with their overseas listings. See "— Industry Trends — Overseas Listing of China's Commercial Banks."

Upon China's accession to the WTO in December 2001, all geographic and customer restrictions on foreign banks' conducting of foreign currency-denominated business were lifted. Furthermore, at the beginning of December 2005, foreign banks were allowed to conduct RMB-denominated business in 25 major cities in China. Restrictions on RMB-denominated business are expected to be further lifted based on a predetermined schedule until the restrictions on geographic presence, customer base and operational licenses are removed by December 2006. See "Regulation and Supervision — PRC Regulation and Supervision — Regulation of Foreign-invested Banking Institutions Operating in China."

In June 2003, China and Hong Kong signed the Mainland and Hong Kong Closer Economic Partnership Arrangement, a free trade agreement commonly known as the CEPA, which became effective on January 1, 2004. CEPA has eased certain restrictions on the activities of Hong Kong banks in China, permitting them to enter the mainland financial sector and conduct RMB banking activities earlier than other non-Chinese banks under China's WTO commitments. For example, under CEPA, commercial banks incorporated in Hong Kong with US$6 billion or more in total assets are qualified to apply to establish branches in China. By comparison, under the PBOC and CBRC regulations, commercial banks incorporated in other jurisdictions must have US$20 billion or more in total assets to be qualified to apply to establish branches in China.

Increasing Liberalization of Interest Rates

Interest rates on deposits and loans were historically 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. For example, since October 29, 2004, China's commercial banks may set their interest rates on RMB-denominated loans so long as such interest rates are not lower than 90% of the relevant PBOC benchmark rates (for RMB-denominated residential mortgage loans, since August 19, 2006, the minimum interest rates have been changed to 85% of the relevant PBOC benchmark rate), and also may set their own interest rates on RMB-denominated deposits so long as such interest rates are not higher than the relevant PBOC benchmark rates. See "Regulation and Supervision — PRC Regulation and Supervision — Pricing of Products and Services — Interest Rates for Loans and Deposits." We expect the on-going interest rate liberalization to facilitate Chinese banks' ability to develop and market innovative products and services and adopt risk-based pricing on credit products.

Increasing Demand for Retail Banking Products and Services

Although corporate banking continues to be the main business for most commercial banks in China, demand for retail banking products and services has grown significantly due to rising income levels in China's households. The following table sets forth, for the periods indicated, key personal income data for China and their respective compound annual growth rates.

	For the Year Ended December 31,					Compound Annual Growth Rate
	2001	2002	2003	2004	2005	(2001-2005)
	(in RMB, except percentages)					
Per capita GDP	8,952	9,368	10,510	12,299	14,002	13.0%
Per capita annual disposable income of urban households	6,860	7,703	8,472	9,422	10,493	11.2%
Per capita annual net income of rural households	2,366	2,476	2,622	2,936	3,255	8.3%

Sources: Statistical Communique of the People's Republic of China on the 2005 National Economic and Social Development and the Economist Intelligence Unit.

We believe that the likely rapid increase in personal wealth in China should continue to drive demand for retail banking products, including residential mortgages, bank debit and credit cards and wealth management services.

Retail Loans

According to the PBOC, retail loans totaled RMB3.2 trillion at December 31, 2005, representing 15.3% of total loans in China and 17.3% of China's 2005 GDP. From December 31, 2003 to December 31, 2005, total retail loans in China increased at a compound annual growth rate of 18.9%. However, as compared with more developed economies, retail lending in China is still under-developed, which presents a significant growth opportunity for China's commercial banks. The following table compares retail loans at December 31, 2004 as a percentage of 2004 GDP for China and certain other countries or regions.

	China	Japan	Hong Kong	Germany	Australia	United Kingdom	United States
Retail loans as a percentage of GDP	17.7%	37.1%	45.3%	48.8%	67.3%	59.3%	87.6%

Sources: PBOC and the Economist Intelligence Unit.

Residential mortgage loans generally account for the majority of China's retail loans. The growth of residential mortgage loans largely has been driven by increasing private home ownership in China as a result of the PRC government's housing reform programs initiated in the 1980s. Although, since 2003, the PRC government has adopted a series of measures to tighten its policies on lending to real estate developers, residential mortgage loans have continued to grow. The total residential mortgage loans in China grew from approximately RMB1.2 trillion at December 31, 2003 to approximately RMB1.8 trillion at December 31, 2005, according to the National Bureau of Statistics of China. In June 2006, in its effort to slow the growth of the residential real estate market, the PRC government increased the minimum down payment requirement from 20% to 30% of the total purchase price of the mortgaged residential property. See "Regulation and Supervision — PRC Regulation and Supervision — Regulation of Principle Commercial Banking Activities — Lending." This new measure is expected to slow down the growth of the residential real estate market, reduce the level of lending through residential mortgage loans and reduce the average size of mortgage loans, thereby adversely affecting the growth of our retail business.

Debit Cards

Debit cards are currently the primary type of bank card in China. According to China Unionpay, at December 31, 2005, there were approximately 920 million debit cards issued in China, representing a 26.5% growth from December 31, 2004. In addition, to compete for retail customers, China's commercial banks are continually improving the convenience and scope of services provided through debit cards. For example, some banks enable their customers to conduct various online transactions with their debit cards in addition to enabling them to conduct ordinary transactions such as withdrawals from and deposits at ATMs and payment for store purchases.

Credit Cards

Credit card usage in China is very low as compared to other developed economies. According to China Unionpay, at December 31, 2005, there were a total of approximately 40 million credit cards issued in China, a substantial majority of which were either quasi-credit cards (which require cash deposit balance as a condition for an interest-bearing credit line) or RMB-only credit cards that can only be used in China. According to VISA International and MasterCard International, at December 31, 2005, the total number of issued dual-currency credit cards in China that can be used overseas was only approximately 12 million. In addition to the short history of credit card business in

China, the low penetration rate of credit cards in China is also due to numerous other factors, including strict regulation on licensing, underdevelopment of a national payment infrastructure, the lack of a nationwide consumer credit information system and the traditional cash-oriented consumption culture. However, as merchants increasingly accept credit cards and consumers in China become more accustomed to using credit cards, demand for credit cards is expected to grow rapidly. The increasing number of licenses granted to banks to engage in the credit card business, the development of China Unionpay and the expected implementation of a national personal credit database that is being promoted by the PBOC are expected to contribute to the growth of China's credit card industry. In addition, the increases in per capita disposable income and average household income are expected to drive the demand for credit cards.

Wealth Management Services

The number of relatively affluent individuals in China is expected to grow as a result of China's rapidly growing economy. According to Wealth Management in Asia-Pacific 2004 published by Datamonitor, China had 0.8 million high net worth individuals in 2003, which is defined as individuals holding US$300,000 or more of liquid assets. Datamonitor estimated that the number of high net worth individuals in China should grow to 1.4 million in 2008. We believe these relatively affluent individuals should increasingly require comprehensive and personalized wealth management advice in addition to traditional banking products and services. To meet such demand, many commercial banks in China have in recent years launched wealth management services, which entail generally the provision of one-on-one wealth management advisory services and other banking privileges, such as priority banking, dedicated banking facilities, fee discounts for certain banking services, and access to a range of investment products. As such services are generally provided only to customers with relatively large amount of aggregate assets (in particular deposits) in the bank, they have become an important marketing platform for commercial banks to attract the deposits of relatively affluent customers and to cross sell other banking products and services.

Further Expansion of Non-interest-based Products and Services

Historically, banks in China were highly restricted in their ability to charge fees for services. In 2001, the PRC government began to promulgate comprehensive regulations to permit banks to charge for non-interest-based products and services. Currently, banks are generally allowed to charge fees based on market conditions except for certain services that are subject to government guidance prices, including basic RMB settlement services and services specified by the CBRC and the NDRC. See "Regulation and Supervision — PRC Regulation and Supervision — Pricing of Products and Services — Pricing for Non-interest-based Products and Services." Because of its short history, non-interest-based products and services remain underdeveloped in China's banking industry. As China's commercial banks become more experienced, corporate and retail customers become more sophisticated, and foreign banks that are more experienced in this area of business increase their operations in China, the ratio of non-interest income to total operating income for China's Banking industry is expected to increase.

Increasing Utilization of Electronic Banking Platforms

Since the emergence of the Internet in China in the late 1990s, China's commercial banks have increasingly used the Internet as a new banking platform to supplement their physical branch outlets. As compared with physical branch outlets, online banking is generally faster, more convenient and cheaper. As the speed and security of China's Internet infrastructure and the related software continue to improve, it is expected that more types of traditional over-the-counter transactions will be able to be conducted online and the volume of such online transactions will increase significantly.

Bank Lending as the Most Important Source of Financing

Historically, companies in China had very limited channels to finance their business, and a substantial majority of corporate financing was conducted through banks. Despite the development of capital markets since the late 1980s, commercial banks remain the principal provider of financing to businesses in China. The following table sets forth, for the periods indicated, the relative proportion of capital raised through bank loans, equity and bonds as a percentage of the total capital raised through these channels in China.

	2001	2002	2003	2004	2005
Bank loans	89.9%	93.7%	94.2%	91.3%	80.8%
Equity	9.0	4.7	4.6	7.2	9.2
Bonds	1.1	1.6	1.2	1.5	10.0
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Source: China Statistics Summary 2006.

Rapid Growth of Direct Corporate Financing

In May 2005, the PBOC promulgated regulations allowing qualified companies to issue domestic commercial paper in the inter-bank market. Following such regulatory change, the domestic commercial paper market has grown significantly. According to China Government Securities Depository Trust & Clearing Co. Ltd., from May 2005 to December 2005, approximately 60 corporations in China issued commercial paper, with a total transaction volume of RMB149.1 billion, of which RMB91.2 billion, or 61.2%, was sold in the fourth quarter of 2005. As compared with bank loans, commercial paper currently represents a cheaper source of financing. Direct financing channels (such as the issuance of commercial paper) are expected to become an increasingly important source of short-term financing for companies, thereby reducing their dependence on commercial banks for short-term loans. Commercial banks in China are permitted to earn fee-based income from underwriting commercial paper.