The following discussion and analysis should be read in conjunction with the Accountants' Report in Appendix I, the Unaudited Interim Financial Report in Appendix II, the unaudited supplementary financial information in Appendix III and the selected financial data, in each case together with the accompanying notes, included elsewhere in this prospectus. The consolidated financial statements included in the Accountants' Report and the Unaudited Interim Financial Report have been prepared in accordance with IFRS. For further details on the basis of presentation of our financial information, see "Summary — Summary Financial Information — Presentation of Our Financial Information." Capital adequacy ratios discussed in this section are calculated in accordance with applicable CBRC guidelines and are based on our financial statements prepared in accordance with PRC GAAP. The capital adequacy ratios are not part of the Accountants' Report and have not been audited.

OVERVIEW

We were ranked sixth among China's commercial banks and second among the Other National Commercial Banks in terms of total assets at June 30, 2006, according to the PBOC. We believe we are a leading retail bank in China. We have strategically concentrated our distribution network in China's relatively affluent regions, such as the Yangtze River Delta, the Pearl River Delta and the Bohai Rim, and certain other major cities in other regions. At June 30, 2006, we had 463 branches and sub-branches, one representative office, 747 self-service centers, 2,288 ATMs and 833 CDMs in 39 cities across China. We also have a branch and a subsidiary in Hong Kong and a representative office in the United States. Through our extensive distribution network, we provide a wide range of financial products and services to our corporate and retail customers. For the year ended December 31, 2005, we had operating income of RMB19.2 billion, including RMB16.6 billion in net interest income and RMB2.6 billion in net non-interest income. At June 30, 2006, we had total assets of RMB824.3 billion, total gross loans of RMB531.6 billion, total deposits from customers of RMB703.6 billion, and shareholders' equity of RMB32.7 billion.

GENERAL FACTORS AFFECTING OUR RESULTS OF OPERATIONS

China's Economic Condition

Our results of operations and financial condition are significantly affected by China's economic conditions and the economic measures undertaken by the PRC government. China has experienced rapid economic growth over the past two decades largely as a result of the PRC government's extensive economic reforms, which have been focused on transforming China's centrally planned economy to a more market-based economy. China's GDP grew at a compound annual growth rate of 9.8% between 2001 and 2005, and fixed asset investments increased at a compound annual growth rate of 24.2%, according to the National Bureau of Statistics of China. In addition, total RMB-denominated loans increased at a compound annual growth rate of 14.7% from 2001 to 2005, according to the PBOC Quarterly Statistical Reports. The growth of China's overall economy has led to increased corporate activities. China's economic growth has also led to significant increases in personal wealth, with per capita annual disposable income in urban areas increasing at a compound annual growth rate of 11.2% from 2001 to 2005. Increased levels of personal wealth have generally led to a rapid growth in the retail banking business, including residential mortgage lending, of Chinese banks.

In recent years, the PRC government has implemented a series of macroeconomic policies, which included, among others, raising the benchmark interest rates, increasing the PBOC statutory deposit reserve ratio applicable to commercial banks, and imposing commercial bank lending guidelines that had the effect of restricting loans to certain "overheated" industries such as the steel, cement, property development and automobile manufacturing industries. These macroeconomic policies led to a decreased growth rate of fixed asset investments and a tightened credit environment, especially toward the "overheated" industries, but also toward other industries, such as the pharmaceutical industry. The adverse funding condition significantly affected the profitability, cash flows and financial condition of companies in these industries. In line with these macroeconomic control measures, commercial banks generally took steps to more closely monitor their lending activities, particularly towards the "overheated" industries and other affected industries. Additional macroeconomic control measures have been implemented by the PRC government since the second quarter of 2006, and these are also expected to affect the business of Chinese commercial banks and the market conditions in which they operate.

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. Adjustments to benchmark rates have significantly affected the average rates for loans and deposits, which in turn have had an impact on the net interest income of Chinese banks. The PBOC adjusted the overall benchmark rates for loans and deposits in February 2002 and October 2004, repealed mandatory discount rates on residential mortgage loans in March 2005, adjusted the benchmark rates for loans in April 2006, and adjusted the benchmark rates for both loans and deposits in August 2006. In March 2005, the PBOC also abolished the limits on interest rates on inter-bank deposits 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. In addition, we 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. Under the new policy, the Renminbi is permitted to fluctuate within a narrow band against a basket of foreign currencies, including the U.S. dollar.

The Competitive Landscape in the PRC Banking Industry

The PRC banking industry is becoming increasingly competitive. We face competition from other PRC commercial banks, including the Big Four and Other National Commercial Banks, and foreign financial institutions. Many other PRC commercial banks compete with us in substantially the same markets for loan, deposit and fee customers. In recent years, three of the Big Four have restructured and become joint stock commercial banks, and China Construction Bank and Bank of China have completed their listing on the Hong Kong Stock Exchange following substantial investments from major international commercial banks and financial institutions. In addition, Other National Commercial Banks have been increasing their market share in recent years. These national commercial banks generally focus on providing more innovative products and higher-quality services, and are more adaptive to changing market conditions. These changes in China's domestic banking sector have intensified competition among PRC domestic commercial banks.

As a result of China's accession to the WTO, China has gradually lifted the restrictions on foreign banks' activities, including geographical restrictions and limitations on business, particularly on conducting RMB-denominated business. All restrictions on foreign banks' geographical presence, customer base and operational licenses are scheduled to be removed by the end of 2006. Consequently, the activities of foreign banks in the PRC are expected to further expand. Furthermore, CEPA has eased certain restrictions on the activities of Hong Kong banks in China, permitting them to conduct Renminbi banking activities sooner than other non-PRC banks. Greater participation by foreign banks will increase competition in the PRC banking market. See "Banking Industry in China" and "Business — Competition."

RESULTS OF OPERATIONS

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

	Years Ended December 31,			Three Months Ended March 31,	
	2003	2004	2005	2005	2006
	(in millions of RMB unless otherwise stated)				
				(unaudited)	
Interest income	15,058	21,080	25,877	5,621	7,241
Interest expense	(4,939)	(6,788)	(9,235)	(1,901)	(2,815)
Net interest income	10,119	14,292	16,642	3,720	4,426
Net fee and commission income	559	889	1,567	264	474
Other net income	491	495	1,005	249	162
Operating income	11,169	15,676	19,214	4,233	5,062
Operating expenses	(5,516)	(7,432)	(9,115)	(2,035)	(2,248)
Operating profit before provisions	5,653	8,244	10,099	2,198	2,814
Provision for impairment losses	(2,236)	(3,066)	(3,637)	(627)	(587)
Profit before tax	3,417	5,178	6,462	1,571	2,227
Income tax	(1,206)	(1,902)	(2,713)	(632)	(795)
Net profit attributable to equity holders of the bank	2,211	3,276	3,749	939	1,432
Dividends	525(1)	753(1)	830(1)	—	153(2)

(1) Represents the annual dividend proposed in respect of the years ended December 31, 2003, 2004 and 2005, respectively, which was declared and paid in 2004, 2005 and 2006, respectively.

(2) Represents the annual dividend proposed in respect of the year ended December 31, 2005 for holders of new shares from conversion of our convertible bonds during the first three months of 2006, which was distributed in June 2006.

Our net profit increased by 52.5% to RMB1,432 million for the three months ended March 31, 2006 compared to RMB939 million for the three months ended March 31, 2005, primarily due to (i) an increase in net interest income, (ii) an increase in net fee and commission income, and (iii) a decrease in provision for impairment losses, partially offset by (iv) a decrease in other net income, (v) an increase in operating expenses, and (vi) an increase in income tax expense.

Our net profit increased by 14.4% to RMB3,749 million in 2005 compared to RMB3,276 million in 2004, which increased by 48.2% compared to RMB2,211 million in 2003.

Our net profit increased from 2003 through 2005 as a combined result of :

- an increase in our net interest income at a compound annual growth rate of 28.2% primarily as a result of an increase in our interest-earning assets;
- an increase in our net fee and commission income at a compound annual growth rate of 67.4%;
- an increase in our other net income at a compound annual growth rate of 43.1%;
- an increase in our operating expenses at a compound annual growth rate of 28.5% a slower rate of growth than our operating income;
- an increase in our provisions for impairment losses at a compound annual growth rate of 27.5%; and
- an increase in our income tax expense at a compound annual growth rate of 50.0%.

Three Months Ended March 31, 2006 Compared to Three Months Ended March 31, 2005

Net Interest Income

Net interest income is the largest component of our operating income, representing 87.4% and 87.9% of our operating income for the three months ended March 31, 2006 and 2005, respectively.

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

	For the Three Months Ended March 31,	
	2005	2006
	(unaudited)	
	(in millions of RMB)	
Interest income	5,621	7,241
Interest expense	(1,901)	(2,815)
Net interest income	3,720	4,426

Our net interest income increased by 19.0% to RMB4.4 billion for the three months ended March 31, 2006 compared to RMB3.7 billion for the three months ended March 31, 2005.

The table below sets forth, for the periods indicated, the average balances of our assets and liabilities and the related interest income or expense and average yields (for assets) and costs (for liabilities). 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 March 31 for the three months ended March 31, 2006 and 2005.

	For the Three Months Ended March 31,					
	2005			2006		
	Average Balance	Interest Income	Average Yield[1]	Average Balance	Interest Income	Average Yield[1]
		(unaudited)				
	(in millions of RMB, except percentages)					
Assets						
Loans to customers, total	388,241	4,631	4.84%	494,566	5,811	4.77%
Investments	93,732	628	2.72	113,227	835	2.99
Balances with central bank[2]	45,637	199	1.77	57,782	229	1.61
Amounts due from banks and other financial institutions[3]	26,145	163	2.53	57,252	366	2.59
Total interest-earning assets	553,755	5,621	4.12	722,827	7,241	4.06
Allowance for impairment losses	(10,633)			(14,086)		
Non-interest-earning assets[4]	24,741			32,499		
Total assets	567,863	5,621	4.01%	741,240	7,241	3.96%

	For the Three Months Ended March 31,					
	2005			2006		
	Average Balance	Interest Expense	Average Cost[1]	Average Balance	Interest Expense	Average Cost[1]
		(unaudited)				
	(in millions of RMB, except percentages)					
Liabilities						
Deposits from customers	495,887	1,572	1.29%	641,069	2,412	1.53%
Amounts due to banks and other financial institutions[5]	31,575	191	2.45	46,450	277	2.42
Issued debt[6]	10,331	138	5.42	15,481	126	3.30
Total interest-bearing liabilities	537,793	1,901	1.43	703,000	2,815	1.62
Non-interest-bearing liabilities[7]	7,976			12,634		
Total liabilities	545,769	1,901	1.41%	715,634	2,815	1.60%
Net interest income		3,720			4,426	
Net interest spread[8]			2.69%			2.44%
Net interest margin[9]			2.72%			2.48%

(1) Calculated on an annualized basis.
(2) Consists primarily of statutory deposit reserves and surplus deposit reserves.
(3) Consists primarily of inter-bank placements, deposits with other banks and other financial institutions, and amounts due under resale (reverse repurchase) agreements.
(4) Consists primarily of cash, accounts receivable, financial assets at fair value through profit or loss, repossessed assets, property and equipment, deferred tax assets and other assets.
(5) Consists primarily of inter-bank placements, deposits from other banks and other financial institutions, amounts due under repurchase agreements, and discounted bills resold to other banks.
(6) Consists of certificates of deposit, convertible bonds, subordinated notes and fixed-term notes.
(7) Consists of taxes payable, interest payable, salaries and welfare payable and other liabilities.
(8) Calculated as the difference between the average yield on total interest-earning assets and the average cost on total interest-bearing liabilities.
(9) Calculated by dividing net interest income by the average balance of total interest-earning assets.

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

	For the Three Months Ended March 31, 2006 vs. 2005		
	Increase/(Decrease) Due to		Net Increase/ (Decrease)[3]
	Volume[1]	Rate[2]	
	(in millions of RMB)		
Assets			
Loans to customers, total	1,268	(88)	1,180
Investments	131	76	207
Balances with central bank	53	(23)	30
Amounts due from banks and other financial institutions	194	9	203
Changes in interest income	1,646	(26)	1,620
Liabilities			
Deposits from customers	460	380	840
Amounts due to banks and other financial institutions	90	(4)	86
Issued debt	69	(81)	(12)
Changes in interest expense	619	295	914
Changes in net interest income			706

(1) Represents the average balance for the period minus the average balance for the previous period, multiplied by the average yield/cost for the previous period.
(2) Represents the average yield/cost for the period minus the average yield/cost for the previous period, multiplied by the average balance for the period.
(3) Represents interest income/expense for the period minus interest income/expense for the previous period.

Interest Income

Our interest income increased by 28.8% to RMB7.2 billion for the three months ended March 31, 2006 compared to RMB5.6 billion for the three months ended March 31, 2005, primarily due to an increase in the average balance of interest-earning assets. The average yield on interest-earning assets decreased to 4.06% for the three months ended March 31, 2006 compared to 4.12% for the three months ended March 31, 2005.

Interest Income from Loans to Customers

Interest income from loans to customers is the largest component of our interest income, representing 80.3% and 82.4% of our total interest income for the three months ended March 31, 2006 and 2005, respectively.

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

	For the Three Months Ended March 31,					
	2005			2006		
	Average Balance	Interest Income	Average Yield(1)	Average Balance	Interest Income	Average Yield(1)
		(unaudited)				
	(in millions of RMB, except percentages)					
Corporate loans	262,371	3,282	5.07%	305,460	4,028	5.35%
Discounted bills	69,606	597	3.48	112,417	701	2.53
Retail loans	56,264	752	5.42	76,689	1,082	5.72
Total Loans to Customers	388,241	4,631	4.84%	494,566	5,811	4.77%

(1) Calculated on an annualized basis.

Interest income from loans to customers increased by 25.5% to RMB5.8 billion for the three months ended March 31, 2006 compared to RMB4.6 billion for the three months ended March 31, 2005, primarily due to an increase in the average balance. The average yield decreased to 4.77% for the three months ended March 31, 2006 compared to 4.84% for the three months ended March 31, 2005.

The largest component of our interest income from loans is interest income from corporate loans, representing 69.3% and 70.9% of our total interest income from loans to customers for the three months ended March 31, 2006 and 2005, respectively.

Interest income from corporate loans increased by 22.7% to RMB4.0 billion for the three months ended March 31, 2006 compared to RMB3.3 billion for the three months ended March 31, 2005, primarily due to an increase in the average balance, coupled with an increase in the average yield to 5.35% for the three months ended March 31, 2006 compared to 5.07% for the three months ended March 31, 2005. The average balance of corporate loans increased by 16.4% to RMB305.5 billion for the three months ended March 31, 2006 compared to RMB262.4 billion for the three months ended March 31, 2005, reflecting our overall business growth. The increase in the average yield on corporate loans was primarily due to a combination of (i) the continued effect of the increase in the PBOC benchmark rates in October 2004, which positively affected our interest income on RMB-denominated loans, (ii) the continued increase in our corporate loans priced at or above the PBOC benchmark rates, reflecting our pricing strategy for corporate loans based on our risk and return assessment, and (iii) the continued increase in the LIBOR-based market interest rates for foreign currency-denominated loans.

Interest income from discounted bills increased by 17.4% to RMB701 million for the three months ended March 31, 2006 compared to RMB597 million for the three months ended March 31, 2005, primarily due to a significant increase in the average balance, partially offset by a decrease in the average yield. The average balance of discounted bills increased by 61.5% to RMB112.4 billion for the three months ended March 31, 2006 compared to RMB69.6 billion for the three months ended March 31, 2005, primarily due to our increased purchase of discounted bills, reflecting our increased funding from customer deposits. The average yield decreased to 2.53% for the three months ended March 31, 2006 compared to 3.48% for the three months ended March 31, 2005, primarily due to a combination of (i) our increased purchase of discounted bills resold by other banks, which generally bear lower interest rates than the discounted bills we purchased directly from our corporate customers, reflecting our increased funding from customer deposits, and (ii) an overall decrease, in the first quarter of 2006, in the market interest rates for discounted bills.

Interest income from retail loans increased by 43.9% to RMB1.1 billion for the three months ended March 31, 2006 compared to RMB752 million for the three months ended March 31, 2005, primarily due to an increase in the average balance and, to a lesser extent, an increase in the average yield. The average balance of retail loans increased by 36.3% to RMB76.7 billion for the three months ended March 31, 2006 compared to RMB56.3 billion for the three months ended March 31, 2005, in line with our overall business growth. The average yield increased to 5.72% for the three months ended March 31, 2006 compared to 5.42% for the three months ended March 31, 2005, primarily due to the repeal of the PBOC's mandatory discount rates on residential mortgage loans in March 2005.

Interest Income from Investments

Interest income from investments is the second largest component of our interest income, representing 11.5% and 11.2% of our interest income for the three months ended March 31, 2006 and 2005, respectively.

Interest income from investments increased by 33.0% to RMB835 million for the three months ended March 31, 2006 compared to RMB628 million for the three months ended March 31, 2005, primarily due to an increase in the average balance, coupled with an increase in the average yield. The average balance increased by 20.8% to RMB113.2 billion for the three months ended March 31, 2006 compared to RMB93.7 billion for the three months ended March 31, 2005, primarily due to an increase in our funding from customer deposits. The average yield increased to 2.99% for the three months ended March 31, 2006 compared to 2.72% for the three months ended March 31, 2005, primarily due to a combination of (i) our investment in corporate commercial paper, which generally bears higher interest rates than most of our other investment securities, following the introduction of this product in the PRC in May 2005, and (ii) an increase in the market interest rates for foreign currency-denominated debt securities, reflecting the continued increase in LIBOR.

Interest Income from Balances with Central Bank

Our interest-earning balances with central bank consist primarily of statutory deposit reserves and surplus deposit reserves. Statutory deposit reserves represent the minimum level of cash deposits, calculated as a percentage of total 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, part of which we maintain for settlement purposes.

Interest income from balances with central bank increased by 15.1% to RMB229 million for the three months ended March 31, 2006 compared to RMB199 million for the three months ended March 31, 2005, primarily due to an increase in the average balance, which was partially offset by a decrease in the average yield. The average balance increased by 26.6% to RMB57.8 billion for the three months ended March 31, 2006 compared to RMB45.6 billion for the three months ended March 31, 2005, primarily due to an increase in our statutory deposit reserves, reflecting an increase in deposits from customers. The average yield decreased to 1.61% for the three months ended March 31, 2006 compared to 1.77% for the three months ended March 31, 2005, primarily due to a reduction of the PBOC interest rate on surplus deposit reserves to 0.99% from 1.62% in March 2005.

Interest Income from Amounts Due from Banks and Other Financial Institutions

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

Interest income from amounts due from banks and other financial institutions increased by 124.5% to RMB366 million for the three months ended March 31, 2006 compared to RMB163 million for the three months ended March 31, 2005, primarily due to an increase in the average balance. The average balance increased by 119.0% to RMB57.3 billion for the three months ended March 31, 2006 compared to RMB26.1 billion for the three months ended March 31, 2005, primarily due to a combination of (i) an increase in our foreign currency funding from customers pending settlement and a decrease in foreign currency-denominated loans, the effect of which allowed us to increase our foreign currency-denominated inter-bank placements and deposits, particularly in U.S. dollars, (ii) an increase in our placement of inter-bank time deposits, which bear higher interest rates than inter-bank demand deposits following the PBOC's removal of restrictions on interest rates for inter-bank deposits in March 2005, and (iii) an overall increase in our funding from customer deposits, which allowed us to increase our lending activities in the inter-bank market. The average yield increased to 2.59% for the three months ended March 31, 2006 compared to 2.53% for the three months ended March 31, 2005, primarily due to an increase in the U.S. Federal Reserve interest rates, which increased the yield on our U.S. dollar-denominated inter-bank placements and deposits.

Interest Expense

Interest expense increased by 48.1% to RMB2.8 billion for the three months ended March 31, 2006 compared to RMB1.9 billion for the three months ended March 31, 2005, primarily due to an increase in the average balance of interest-bearing liabilities, coupled with an increase in the average cost of interest-bearing liabilities to 1.62% for the three months ended March 31, 2006 compared to 1.43% for the three months ended March 31, 2005.

Interest Expense on Deposits from Customers

Deposits from customers are our primary source of funding. Interest expense on deposits from customers represented 85.7% and 82.7% of our total interest expense for the three months ended March 31, 2006 and 2005, respectively.

Interest expense on deposits from customers increased by 53.4% to RMB2.4 billion for the three months ended March 31, 2006 compared to RMB1.6 billion for the three months ended March 31, 2005, due to an increase of 29.3% in the average balance, coupled with an increase in the average cost to 1.53% for the three months ended March 31, 2006 compared to 1.29% for the three months ended March 31, 2005.

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

	For the Three Months Ended March 31,					
	2005			2006		
	Average Balance	Interest Expense	Average Cost[(1)]	Average Balance	Interest Expense	Average Cost[(1)]
		(unaudited)				
	(in millions of RMB, except percentages)					
Corporate deposits[(2)]						
Demand	179,873	384	0.87%	211,770	485	0.93%
Time	113,885	589	2.10	155,546	941	2.45
Subtotal	293,758	973	1.34	367,316	1,426	1.57
Retail deposits						
Demand	99,647	157	0.64	122,233	221	0.73
Time	102,482	442	1.75	151,520	765	2.05
Subtotal	202,129	599	1.20	273,753	986	1.46
Total deposits from customers	495,887	1,572	1.29%	641,069	2,412	1.53%

(1) Calculated on an annualized basis.
(2) Consists of deposits from corporate customers, government authorities and other organizations.

The largest component of our interest expense on deposits from customers is interest expense on corporate deposits, representing 59.1% and 61.9% of our total interest expense on deposits from customers for the three months ended March 31, 2006 and 2005, respectively.

Interest expense on corporate deposits increased by 46.6% to RMB1.4 billion for the three months ended March 31, 2006 compared to RMB1.0 billion for the three months ended March 31, 2005, primarily due to an increase in the interest expense on corporate time deposits, coupled with an increase in the interest expense on corporate demand deposits.

Interest expense on corporate time deposits increased by 59.8% to RMB941 million for the three months ended March 31, 2006 compared to RMB589 million for the three months ended March 31, 2005, primarily due to an increase in the average balance, coupled with an increase in the average cost. The average balance of our corporate time deposits increased by 36.6% to RMB155.5 billion for the three months ended March 31, 2006 compared to RMB113.9 billion for the three months ended March 31, 2005. As a percentage of our total corporate deposits, the average balance of our corporate time deposits increased to 42.3% for the three months ended March 31, 2006 compared to 38.8% for the three months ended March 31, 2005. The increase in the average balance of our corporate time deposits both in absolute terms and as a percentage of our total corporate deposits reflected primarily the continued shift of a portion of demand deposits to time deposits following the increase in the PBOC benchmark rates in October 2004. The average cost on corporate time deposits increased to 2.45% for the three months ended March 31, 2006 compared to 2.10% for the three months ended March 31, 2005, primarily due to a combination of (i) an increase in the market interest rates on foreign currency-denominated deposits, and (ii) the continued shift towards deposits with longer maturities, which bear higher interest rates than deposits with shorter maturities, following the deregulation of maturities of corporate deposits in September 2005.

Interest expense on corporate demand deposits increased by 26.3% to RMB485 million for the three months ended March 31, 2006 compared to RMB384 million for the three months ended

March 31, 2005, primarily due to an increase in the average balance, coupled with an increase in the average cost. The average balance of our corporate demand deposits increased by 17.7% to RMB211.8 billion for the three months ended March 31, 2006 compared to RMB179.9 billion for the three months ended March 31, 2005, primarily as a result of the continued expansion of our branch network. The average cost of our corporate demand deposits increased to 0.93% for the three months ended March 31, 2006 compared to 0.87% for the three months ended March 31, 2005, primarily due to an increase in the market interest rates on foreign currency-denominated deposits.

Interest expense on retail deposits increased by 64.6% to RMB986 million for the three months ended March 31, 2006 compared to RMB599 million for the three months ended March 31, 2005, primarily due to an increase in the interest expense on retail time deposits and, to a lesser extent, an increase in the interest expense on retail demand deposits.

Interest expense on retail time deposits increased by 73.1% to RMB765 million for the three months ended March 31, 2006 compared to RMB442 million for the three months ended March 31, 2005, primarily due to an increase in the average balance, coupled with an increase in the average cost. The average balance of our retail time deposits increased by 47.9% to RMB151.5 billion for the three months ended March 31, 2006 compared to RMB102.5 billion for the three months ended March 31, 2005. As a percentage of our total retail deposits, the average balance of retail time deposits increased to 55.3% for the three months ended March 31, 2006 compared to 50.7% for the three months ended March 31, 2005. This increase in the average balance of our retail time deposits both in absolute terms and as a percentage of our total retail deposits was primarily attributable to (i) the expansion of our branch network and our continued marketing efforts and (ii) the continued shift of a portion of demand deposits to time deposits following the increase in the PBOC benchmark rates in October 2004. The increase in the average cost of our retail time deposits to 2.05% for the three months ended March 31, 2006 compared to 1.75% for the three months ended March 31, 2005 was primarily due to a combination of (i) the continued shift towards deposits with longer maturities, which bear relatively high interest rates, following the increase in the PBOC benchmark rates in October 2004, and (ii) the continued effect of the increases in the PBOC benchmark rates for foreign currency-denominated deposits since early 2005.

Interest expense on retail demand deposits increased by 40.8%, due to increases in both the average balance and the average cost. The average balance of our retail demand deposits increased by 22.7% to RMB122.2 billion for the three months ended March 31, 2006 compared to RMB99.6 billion for the three months ended March 31, 2005, primarily due to the expansion of our branch network. The average cost increased to 0.73% for the three months ended March 31, 2006 compared to 0.64% for the three months ended March 31, 2005, primarily reflecting the continued effect of the increases in the PBOC benchmark rates for foreign currency-denominated deposits since early 2005.

Interest Expense on Amounts Due to Banks and Other Financial Institutions

Amounts due to banks and other financial institutions consist primarily of deposits from banks and other financial institutions.

Interest expense on amounts due to banks and other financial institutions increased by 45.0% to RMB277 million for the three months ended March 31, 2006 compared to RMB191 million for the three months ended March 31, 2005, primarily due to an increase in the average balance. The average balance increased by 47.1% to RMB46.5 billion for the three months ended March 31, 2006 compared to RMB31.6 billion for the three months ended March 31, 2005, primarily due to the increased liquidity in the inter-bank market and our efforts to attract relatively low-cost inter-bank deposits following the PBOC's abolition of limits on interest rates for these deposits in March 2005. The average cost decreased slightly to 2.42% for the three months ended March 31, 2006 compared to 2.45% for the three months ended March 31, 2005, primarily attributable to the decreased market interest rates on discounted bills resold to banks.

Interest Expense on Issued Debt

Our issued debt consists primarily of (i) certificates of deposit with an aggregate nominal value of US$150 million and a coupon rate of LIBOR + 0.35%, which we issued in June 2004 and will mature three years after issuance, (ii) five-year convertible bonds with an aggregate nominal value of RMB6.5 billion and progressive coupon interest rates, which we issued in November 2004, (iii) subordinated notes with an aggregate nominal value of RMB3.5 billion and coupon rates of 4.59% and 5.10%, which we issued in two series in March and June 2004 and will mature 61 months after issuance, and (iv) fixed-term notes with an aggregate nominal value of RMB10 billion and coupon rates of 2.13% and 2.56%, which we issued in two series in October 2005 and will mature 36 or 60 months after issuance.

Interest expense on our total issued debt decreased by 8.7% to RMB126 million for the three months ended March 31, 2006 compared to RMB138 million for the three months ended March 31, 2005, primarily due to a decrease in the average cost, partially offset by an increase in the average balance. The average cost decreased to 3.30% for the three months ended March 31, 2006 compared to 5.42% for the three months ended March 31, 2005, primarily due to a combination of (i) our issuance of fixed-term notes, which bear lower coupon rates than our other issued debt, in October 2005, and (ii) the conversion of our convertible bonds, which bear higher effective interest rates than our other issued debt, in an aggregate nominal value of RMB6,453 million into our A shares from the second quarter of 2005 through March 31, 2006. The increase in the average balance of our issued debt was primarily due to our issuance of fixed-term notes in October 2005, partially offset by the conversion of our convertible bonds.

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. Our net interest spread decreased to 2.44% for the three months ended March 31, 2006 compared to 2.69% for the three months ended March 31, 2005, because the average yield on our interest-earning assets decreased to 4.06% for the three months ended March 31, 2006 compared to 4.12% for the three months ended March 31, 2005 and the average cost on our interest-bearing liabilities increased to 1.62% for the three months ended March 31, 2006 compared to 1.43% for the three months ended March 31, 2005.

Net interest margin is the ratio of net interest income to the average balance of total interest-earning assets. Our net interest income increased by 19.0% to RMB4.4 billion for the three months ended March 31, 2006 compared to RMB3.7 billion for the three months ended March 31, 2005. Our net interest income increased at a lower rate than the average balance of our interest-earning assets for the three months ended March 31, 2006 compared to the three months ended March 31, 2005. As a result, our net interest margin decreased to 2.48% for three months ended March 31, 2006 compared to 2.72% for the three months ended March 31, 2005.

Net Fee and Commission Income

Net fee and commission income represented 9.4% and 6.2% of our total operating income for the three months ended March 31, 2006 and 2005, respectively. The following table sets forth, for the periods indicated, the principal components of our net fee and commission income.

	For the Three Months Ended March 31,	
	2005	2006
	(unaudited)	
	(in millions of RMB)	
Fee and commission income		
Bank card fees	106	199
Remittance and settlement fees(1)	83	130
Agency services fees	35	94
Commissions from credit commitment and loan business	37	61
Trust services fees	14	19
Others(2)	28	55
Subtotal	303	558
Fee and commission expenses	(39)	(84)
Net fee and commission income	264	474

(1) Consists primarily of settlement and remittance fees from corporate and retail customers and management fees on accounts with small balances.

(2) Consists primarily of fees from wealth management services, certification fees, commissions on derivative products (including interest rate and foreign exchange options and swaps) and fees from safe deposit box services.

Our net fee and commission income increased by 79.5% to RMB474 million for the three months ended March 31, 2006 compared to RMB264 million for the three months ended March 31, 2005, primarily due to a combination of increases in all categories of fees and commission income, particularly bank card fees, agency services fees and remittance and settlement fees, partially offset by an increase in our fee and commission expenses.

Bank card fee income consists primarily of commissions from merchants, annual fees on credit cards, value-added service fees on credit cards (including, among others, service charges for installment payments and cash advances), service fees paid to us by other banks for transactions conducted by their customers through our ATMs. Bank card fee income increased by 87.7% to RMB199 million for the three months ended March 31, 2006 compared to RMB106 million for the three months ended March 31, 2005, primarily due to an increase of commissions from merchants as a result of increased transaction volumes in our bank cards, particularly credit cards, and, to a lesser extent, increases in annual fees and value-added service fees on credit cards, resulting primarily from the growth of our credit card customer base.

Agency services fees consist primarily of fees from underwriting debt securities, including commercial paper, and fees from the distribution of insurance products and agency services on equity securities. Agency services fees increased by 168.6% to RMB94 million for the three months ended March 31, 2006 compared to RMB35 million for the three months ended March 31, 2005. This increase was due to a combination of increases in all categories of agency services fees. An important component of the increase in agency services fees for the three months ended March 31, 2006 compared to the three months ended March 31, 2005 was fees from underwriting commercial paper for corporate entities, a service we first began to provide in May 2005 following the introduction of this product in the PRC. In addition, the increase in our agency services fees also resulted from increased transaction volumes of securities trading by our customers in the first quarter of 2006, and those relating to insurance products, which were primarily attributable to our marketing efforts.

Remittance and settlement fee income consists primarily of fees earned on money transfers and management fees on accounts with small balances. Remittance and settlement fees increased by 56.6% to RMB130 million for the three months ended March 31, 2006 compared to RMB83 million for the three months ended March 31, 2005, primarily due to a combination of (i) an increase in the volume of remittance and settlement transactions, and (ii) our starting to charge management fees to our retail customers on accounts with small balances in July 2005.

Commissions from the credit commitment and loan business consists primarily of fees from issuing bank acceptance bills and providing guarantees. Commissions from the credit commitment and loan business increased by 64.9% to RMB61 million for the three months ended March 31, 2006 compared to RMB37 million for the three months ended March 31, 2005, primarily due to increased transaction volumes attributable to the continued growth of our corporate customer base and our customers' increased demand for our credit commitment services.

Trust services fee income consists primarily of fees from custody services and fees from the distribution of fund products. Trust services fee income increased by 35.7% to RMB19 million for the three months ended March 31, 2006 from RMB14 million for the three months ended March 31, 2005, primarily due to the continued increases in the volume of assets under custody and transaction volumes of fund products.

Other fees consist primarily of fees from wealth management services, certification fees, commissions on derivative products (including interest rate and foreign exchange options and swaps) and fees from safe deposit box services. Other fees increased by 96.4% to RMB55 million for the three months ended March 31, 2006 compared to RMB28 million for the three months ended March 31, 2005, primarily due to an increase in payment processing fees for trust funds resulting from increased transaction volumes and an increase in fees from financial advisory services and wealth management services, reflecting a continued increase in customer demand.

Our fee and commission expenses increased by 115.4% to RMB84 million for the three months ended March 31, 2006 compared to RMB39 million for the three months ended March 31, 2005, primarily due to a combination of (i) an increase in fees paid to VISA and MasterCard as a result of increased volumes of credit card transactions, (ii) an increase in transaction fees we paid to other banks for transactions conducted by our bank card customers through other banks' ATMs, and (iii) an increase in the commission expenses on financial derivative products, particularly interest rate swaps, due to increased transaction volumes resulting from our customers' increased demand.

Other Net Income

Other net income represented 3.2% and 5.9% of our total operating income for the three months ended March 31, 2006 and 2005, respectively. The following table sets forth, for the periods indicated, the principal components of our other net income.

	For the Three Months Ended March 31,	
	2005	2006
	(unaudited)	
	(in millions of RMB)	
Net gain arising from foreign currency dealings	91	130
Net gain on financial instruments at fair value through profit or loss	142	43
Net gain/(loss) on disposal of available-for-sale financial assets	1	(23)
Rental income	13	12
Others[(1)]	2	—
Total other net income	249	162

(1) Consists primarily of dividend income and CMBI's other net income.

Other net income decreased by 34.9% to RMB162 million for the three months ended March 31, 2006 compared to RMB249 million for the three months ended March 31, 2005, primarily due to a decrease in net gain on financial instruments at fair value through profit or loss and a net loss on the disposal of available-for-sale financial assets, partially offset by an increase in net gain arising from foreign currency dealings.

Net gain or loss on financial instruments at fair value through profit or loss consists of net revaluation gains or losses on financial instruments at fair value through profit or loss, net gains or losses on disposal of these financial instruments and interest income on debt securities in this portfolio. Net gain on financial instruments at fair value through profit or loss decreased by 69.7% to RMB43 million for the three months ended March 31, 2006 compared to RMB142 million for the three months ended March 31, 2005, primarily due to a net revaluation loss on derivatives and a decrease in net revaluation gain on debt securities at fair value through profit or loss, partially offset by an increase in net gains on the disposal of these debt securities.

We incurred a net loss of RMB23 million on the disposal of available-for-sale financial assets for the three months ended March 31, 2006 compared to a net gain of RMB1 million for the three months ended March 31, 2005, primarily attributable to our disposal of certain available-for-sale financial assets whose fair value decreased from prior years.

Net gain arising from foreign currency dealings consists primarily of net realized and unrealized gains or losses on our foreign exchange transactions with customers and differences arising from the translation of foreign currency assets. Net gains arising from foreign currency dealings increased by 42.9% to RMB130 million for the three months ended March 31, 2006 compared to RMB91 million for the three months ended March 31, 2005, primarily attributable to the increase in volumes of our foreign exchange transactions with our corporate and retail customers resulting from their increased demand.

Rental income remained effectively stable at RMB12 million for the three months ended March 31, 2006 compared to RMB13 million for the three months ended March 31, 2005.

Operating Expenses

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

	For the Three Months Ended March 31,	
	2005	2006
	(unaudited)	
	(in millions of RMB)	
Staff costs	1,011	1,020
Business tax and surcharges	260	325
Depreciation	170	220
Rental expenses	155	192
Other general and administrative expenses[1]	439	491
Total operating expenses	2,035	2,248

(1) Consists primarily of promotion expenses, transportation expenses, communication and office expenses, travel expenses, utility expenses, legal expenses, audit fees and other expenses.

Our operating expenses increased by 10.5% to RMB2.2 billion for the three months ended March 31, 2006 compared to RMB2.0 billion for the three months ended March 31, 2005, primarily due to an increase in all categories of operating expenses, but was particularly affected by increases in business tax and surcharges and depreciation. Our ratio of operating expenses (excluding business tax and surcharges) to operating income, which we refer to as our cost-to-income ratio, decreased to 37.99% for the three months ended March 31, 2006 compared to 41.93% for the three months ended March 31, 2005.

Staff Costs

Staff costs are the largest component of our operating expenses, representing 45.4% and 49.7% of our operating expenses for the three months ended March 31, 2006 and 2005, respectively.

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

	For the Three Months Ended March 31,	
	2005	2006
	(unaudited)	
	(in millions of RMB)	
Salaries, bonuses and staff welfare	827	737
Contributions to defined contribution retirement schemes	99	117
Housing allowances	51	68
Others[1]	34	98
Total staff costs	1,011	1,020

(1) Consists of contributions to union fees and other miscellaneous staff costs.

Staff costs increased by 0.9% to RMB1,020 million for the three months ended March 31, 2006 compared to RMB1,011 million for the three months ended March 31, 2005. This increase was primarily due to increases in other staff costs, contributions to the defined contribution retirement schemes and housing allowances, partially offset by a decrease in salaries, bonuses and staff welfare.

Salaries, bonuses and staff welfare costs consist of (i) salaries and bonuses we pay to our employees, (ii) staff welfare costs, which are accrued at fixed percentages of total staff salaries, (iii) medical insurance costs, and (iv) other staff welfare costs, including performance bonus for senior management under our long-term incentive scheme. Our salaries, bonuses and staff welfare costs decreased by 10.9% to RMB737 million for the three months ended March 31, 2006 compared to RMB827 million for the three months ended March 31, 2005, primarily because we did not accrue performance bonus for senior management during the three months ended March 31, 2006, as our long-term incentive scheme was being reviewed.

We contribute to defined contribution retirement schemes, including statutory retirement schemes and a supplementary defined contribution plan, at certain percentages of our total staff salaries pursuant to applicable PRC regulations. Our contributions to defined contribution retirement schemes increased by 18.2% to RMB117 million for the three months ended March 31, 2006 compared to RMB99 million for the three months ended March 31, 2005, primarily due to an increase in the number of our employees.

Housing allowances increased by 33.3% to RMB68 million for the three months ended March 31, 2006 compared to RMB51 million for the three months ended March 31, 2005, primarily due to the increase in the number of our employees.

Other staff costs consist primarily of union fees and other miscellaneous staff costs. Other staff costs increased by 188.2% to RMB98 million for the three months ended March 31, 2006 compared to RMB34 million for the three months ended March 31, 2005, primarily due to an increase in other miscellaneous staff costs resulting from the increased number of our employees.

Business Tax and Surcharges

Business tax is levied primarily on interest income from loans to customers and fee and commission income. The business tax rate since 2003 has been 5%. In addition, certain surcharges are levied at an aggregate rate ranging from 4% to 10% of the amount of our business tax paid. Business tax and surcharges increased by 25.0% to RMB325 million for the three months ended March 31, 2006 compared to RMB260 million for the three months ended March 31, 2005, due to an increase in our revenues subject to these taxes.

Depreciation

Depreciation expenses increased by 29.4% to RMB220 million for the three months ended March 31, 2006 compared to RMB170 million for the three months ended March 31, 2005, primarily attributable to the increased amount of electronic equipment (including our ATM network and computer equipment) and other fixed assets.

Rental Expenses

Rental expenses increased by 23.9% to RMB192 million for the three months ended March 31, 2006 compared to RMB155 million for the three months ended March 31, 2005, primarily due to an increase in the number of our branch outlets to meet the needs of our business growth.

Other General and Administrative Expenses

Other general and administrative expenses consist primarily of promotion expenses, transportation expenses, communication and office expenses, travel expenses, utility expenses, legal expenses, audit fees and other expenses. These other general and administrative expenses increased by 11.8% to RMB491 million for the three months ended March 31, 2006 compared to RMB439 million for the three months ended March 31, 2005. The increases were in line with our business growth.

Provisions for Impairment Losses

Provisions for impairment losses consist primarily of provisions on loans and other assets. Provisions for impairment losses decreased by 6.4% to RMB587 million for the three months ended March 31, 2006 compared to RMB627 million for the three months ended March 31, 2005.

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

	For the Three Months Ended March 31,	
	2005	2006
	(unaudited)	
	(in millions of RMB)	
Impairment losses charged on loans	608	708
Impairment losses charged/(released) on deposits and placements with banks and other financial institutions	19	(121)
Total	627	587

The largest component of our provisions for impairment losses consists of provisions for loan impairment. Impairment losses charged on loans increased by 16.4% to RMB708 million for the three months ended March 31, 2006 compared to RMB608 million for the three months ended March 31, 2005. For details on changes in our allowance for loan losses, including provisions for impairment losses, see "Assets and Liabilities — Assets — Allowance for Impairment Losses on Loans to Customers."

We make provisions for impairment losses on deposits and placements with banks and other financial institutions based on the period-end balance of deposits and placements with banks and other financial institutions and the historical loss ratio of these deposits and placements. We recorded a release of RMB121 million from the allowance for impairment losses on deposits and placements with banks and other financial institutions for the three months ended March 31, 2006 compared to a provision of RMB19 million for the three months ended March 31, 2005, primarily due to a decrease in the historical loss ratio used to assess our inter-bank deposits and placements for impairment.

Profit Before Tax

As a result of the foregoing, our profit before tax increased by 41.8% to RMB2.2 billion for the three months ended March 31, 2006 compared to RMB1.6 billion for the three months ended March 31, 2005.

Income Tax

The following table sets forth 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 Three Months Ended March 31,	
	2005	2006
	(unaudited)	
	(in millions of RMB)	
Profit before tax	1,571	2,227
Notional tax on profit before tax, calculated at the statutory tax rate of 33%	518	735
Add/(less) the tax effect of the following items:		
Non-deductible expenses(1)	182	233
Non-taxable income(2)	(51)	(99)
Different income tax rates in other areas	(44)	(83)
Others	27	9
Income tax expense	632	795

(1) Non-deductible expenses represent primarily staff costs in excess of the statutory deductible threshold, impairment losses on assets (such as loans and repossessed assets) in excess of the deductible amounts, and entertainment expenses, depreciation and amortization charges which are not tax-deductible.
(2) Non-taxable income consists primarily of interest income from PRC government bonds.

Our income tax attributable to non-deductible expenses increased by 28.0% to RMB233 million for the three months ended March 31, 2006 compared to RMB182 million for the three months ended March 31, 2005, primarily due to an increase in our non-deductible staff costs.

The tax savings attributable to our non-taxable income increased by 94.1% to RMB99 million for the three months ended March 31, 2006 compared to RMB51 million for the three months ended March 31, 2005, primarily due to increases in the returns on PRC government bonds. Our income tax in different regions of China is calculated at the tax rate and basis applicable in each region in accordance with national and local tax rules. In the Shenzhen Special Economic Zone, where our head office and Shenzhen branch are located, we enjoy a preferential income tax rate of 15%, compared to the statutory tax rate of 33% elsewhere in China. The impact of the different income tax rates applicable to various tax jurisdictions resulted in a decrease in our tax expenses of RMB83 million for the three months ended March 31, 2006 compared to RMB44 million for the three months ended March 31, 2005. The net effect of these items and other miscellaneous items produced effective tax rates of 35.7% and 40.2% for the three months ended March 31, 2006 and 2005, respectively.

The following table sets forth the components of our income tax expenses.

	For the Three Months Ended March 31,	
	2005	2006
	(unaudited)	
	(in millions of RMB)	
Current income tax	698	940
Deferred income tax	(66)	(145)
Income tax expenses	632	795

Our income tax expense increased by 25.8% to RMB795 million for the three months ended March 31, 2006 compared to RMB632 million for the three months ended March 31, 2005, primarily due to an increase in our taxable income. Our deferred income tax credit increased by 119.7% to RMB145 million for the three months ended March 31, 2006 compared to RMB66 million for the three months ended March 31, 2005, primarily due to an increase in net provisions for impairment losses on loans to customers in excess of deductible provisions under the PRC tax rules.

Net Profit

As a result of all the foregoing factors, our net profit increased by 52.5% to RMB1,432 million for the three months ended March 31, 2006 compared to RMB939 million for the three months ended March 31, 2005.

Years Ended December 31, 2005, 2004 and 2003

Net Interest Income

Net interest income has historically been the largest component of our operating income, representing 86.6%, 91.2% and 90.6% of our total operating income for the years ended December 31, 2005, 2004 and 2003, 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,		
	2003	2004	2005
	(in millions of RMB)		
Interest income	15,058	21,080	25,877
Interest expense	(4,939)	(6,788)	(9,235)
Net interest income	10,119	14,292	16,642

Our net interest income increased by 16.4% to RMB16.6 billion in 2005 compared to RMB14.3 billion in 2004, which in turn increased by 41.2% compared to RMB10.1 billion in 2003. The lower growth rate of net interest income in 2005 compared with the growth rate in 2004 reflected a lower growth rate in interest income in 2005, which increased by 22.8%, compared to 40.0% in 2004, while the growth rate in interest expense remained effectively stable at 36.0% in 2005 compared to 37.4% in 2004.

The table below sets forth, for the years indicated, the average balances of our assets and liabilities and the related interest income or expense and average yields (for assets) and costs (for liabilities). The average balances of interest-earning assets and interest-bearing liabilities are the average of the daily balances. The average balances of the allowance for impairment losses are the average of the quarterly balances. The average balances of non-interest-earning assets and non-interest-bearing liabilities are the average of the balances at January 1 and December 31 for the years ended December 31, 2005, 2004 and 2003.

	For the Year Ended December 31,								
	2003			2004			2005		
	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	261,601	11,492	4.39%	372,353	16,890	4.54%	429,325	21,058	4.90%
Investments	86,275	2,497	2.89	91,507	2,646	2.89	95,227	2,981	3.13
Balances with central bank(1)	26,890	506	1.88	40,888	746	1.82	53,115	836	1.57
Amounts due from banks and other financial institutions(2)	24,140	563	2.33	30,692	798	2.60	40,444	1,002	2.48
Total interest-earning assets	398,906	15,058	3.77	535,440	21,080	3.94	618,111	25,877	4.19
Allowance for impairment losses	(7,944)	—	—	(9,950)	—	—	(12,682)	—	—
Non-interest-earning assets(3)	17,526	—	—	19,928	—	—	29,970	—	—
Total assets	408,488	15,058	3.69%	545,418	21,080	3.86%	635,399	25,877	4.07%

	For the Year Ended December 31,								
	2003			2004			2005		
	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	332,381	3,866	1.16%	437,988	5,116	1.17%	550,719	7,558	1.37%
Amounts due to banks and other financial institutions(4)	46,948	1,033	2.20	65,589	1,474	2.25	46,303	1,076	2.32
Amounts due to central bank(5)	1,415	40	2.83	652	20	3.07	—	—	—
Issued debt(6)	—	—	—	3,875	178	4.59	11,881	601	5.06
Total interest-bearing liabilities	380,744	4,939	1.30	508,104	6,788	1.34	608,903	9,235	1.52
Non-interest-bearing liabilities(7)	5,216	—	—	7,307	—	—	9,985	—	—
Total liabilities	385,960	4,939	1.28%	515,411	6,788	1.32%	618,888	9,235	1.49%
Net interest income		10,119			14,292			16,642	
Net interest spread(8)			2.47%			2.60%			2.67%
Net interest margin(9)			2.54%			2.67%			2.69%

(1) Consists primarily of statutory deposit reserves and surplus deposit reserves.
(2) Consists primarily of inter-bank placements, deposits with other banks and other financial institutions, and amounts due under resale (reverse repurchase) agreements.
(3) Consists primarily of cash, accounts receivable, financial assets at fair value through profit or loss, repossessed assets, property and equipment, deferred tax assets and other assets.
(4) Consists primarily of inter-bank placements, deposits from other banks and other financial institutions, amounts due under repurchase agreements, and discounted bills resold to other banks.
(5) Consists of discounted bills resold to the PBOC.
(6) Consists of certificates of deposit, convertible bonds, subordinated notes and fixed-term notes.
(7) Consists of taxes payable, interest payable, salaries payable and other liabilities.
(8) Calculated as the difference between the average yield on total interest-earning assets and the average cost on total interest-bearing liabilities.
(9) 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 rate.

	For the Year Ended December 31,					
	2004 vs. 2003			2005 vs. 2004		
	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	4,865	533	5,398	2,584	1,584	4,168
Investments	151	(2)	149	108	227	335
Balances with central bank	263	(23)	240	223	(133)	90
Amounts due from banks and other financial institutions	153	82	235	254	(50)	204
Changes in interest income	5,432	590	6,022	3,169	1,628	4,797
Liabilities						
Deposits from customers	1,228	22	1,250	1,317	1,125	2,442
Amounts due to banks and other financial institutions	410	31	441	(433)	35	(398)
Amounts due to central banks	(22)	2	(20)	(20)	—	(20)
Issued debt	—	178	178	368	55	423
Changes in interest expense	1,616	233	1,849	1,232	1,215	2,447
Changes in net interest income	3,816	357	4,173	1,937	413	2,350

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

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

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

Interest Income

Our interest income increased by 22.8% to RMB25.9 billion in 2005 compared to RMB21.1 billion in 2004, which in turn increased by 40.0% compared to RMB15.1 billion in 2003, primarily due to an increase in the average balance of interest-earning assets, coupled with an increase in the average yield. The average yield on interest-earning assets was 4.19%, 3.94% and 3.77% in 2005, 2004 and 2003, respectively.

Interest Income from Loans to Customers

Interest income from loans to customers has been historically the largest component of our interest income, representing 81.4%, 80.1% and 76.3% of our total interest income in 2005, 2004 and 2003, 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,								
	2003			2004			2005		
	Average Balance	Interest Income	Average Yield	Average Balance	Interest Income	Average Yield	Average Balance	Interest Income	Average Yield
	(in millions of RMB, except percentages)								
Corporate loans	187,392	8,545	4.56%	247,574	11,677	4.72%	277,083	14,655	5.29%
Discounted bills	48,601	1,672	3.44	78,930	2,854	3.62	89,153	2,949	3.31
Retail loans	25,608	1,275	4.98	45,849	2,359	5.15	63,089	3,454	5.47
Total Loans to Customers	261,601	11,492	4.39%	372,353	16,890	4.54%	429,325	21,058	4.90%

Interest income from loans to customers increased by 24.7% to RMB21.1 billion in 2005 compared to RMB16.9 billion in 2004, which in turn increased by 47.0% compared to RMB11.5 billion in 2003, primarily due to an increase in the average balance and, to a lesser extent, an increase in the average yield to 4.90% in 2005 compared to 4.54% in 2004 and 4.39% in 2003.

The largest component of our interest income from loans has been interest income from corporate loans, representing 69.6%, 69.1% and 74.4% of our total interest income from loans to customers for the years ended December 31, 2005 , 2004 and 2003, respectively. Interest income from our retail loan portfolio has shown the highest rate of growth in the three-year period from January 1, 2003, reflecting our strategy of expanding our retail loan business. As a percentage of our total interest income from loans to customers, interest income from our retail loan portfolio increased to 16.4% in 2005 compared to 14.0% in 2004 and 11.1% in 2003.

2005 Compared to 2004. Interest income from corporate loans increased by 25.5% to RMB14.7 billion in 2005 compared to RMB11.7 billion in 2004, primarily due to an increase in the average yield to 5.29% in 2005 from 4.72% in 2004, coupled with an increase in the average balance. The increase in the average yield on corporate loans was primarily due to a combination of (i) an increase in the PBOC benchmark rates in October 2004, which positively affected our interest income on RMB-denominated loans, (ii) an increase in the LIBOR-based market interest rates for foreign currency-denominated loans since the second half of 2004, and (iii) an increase in the proportion of our corporate loans priced at or above the PBOC benchmark rates as the result of our adoption of a pricing strategy based on our risk and return assessment. The average balance of corporate loans increased by 11.9% to RMB277.1 billion in 2005 compared to RMB247.6 billion in 2004, reflecting our overall business growth. The average balance of corporate loans increased at a relatively lower rate compared to 2004, primarily due to a combination of (i) our strategy of focusing on assets that are assigned lower credit risk weightings for capital adequacy purposes, such as discounted bills and retail loans, and (ii) the effect of the PRC government's macroeconomic control measures.

Interest income from discounted bills increased by 3.3% to RMB2,949 million in 2005 compared to RMB2,854 million in 2004, primarily due to a significant increase in the average balance, partially offset by a decrease in the average yield. The average balance of discounted bills increased by 13.0% to RMB89.2 billion in 2005 compared to RMB78.9 billion in 2004, primarily reflecting the continued increase in market demand for this product and our strategy of focusing on assets that are assigned lower credit risk weightings for capital adequacy purposes. The average yield decreased to

3.31% in 2005 compared to 3.62% in 2004, primarily due to a decrease in the interest rates prevailing in the discounted bill market as a result of increased liquidity.

Interest income from retail loans increased by 46.4% to RMB3.5 billion in 2005 compared to RMB2.4 billion in 2004, primarily due to an increase in the average balance and, to a lesser extent, an increase in the average yield. The average balance of retail loans increased by 37.6% to RMB63.1 billion in 2005 compared to RMB45.8 billion in 2004, primarily due to an increase in the average balance of residential mortgage loans as a result of our continuing efforts to expand this business. The average yield increased to 5.47% in 2005 from 5.15% in 2004, primarily due to an increase in the PBOC benchmark rates in October 2004 and the repeal of the PBOC's mandatory discount rates on residential mortgage loans in March 2005.

2004 Compared 2003. Interest income from corporate loans increased by 36.7% to RMB11.7 billion in 2004 compared to RMB8.5 billion in 2003, primarily due to an increase in the average balance and, to a lesser extent, an increase in the average yield to 4.72% in 2004 compared to 4.56% in 2003. The average balance of corporate loans increased by 32.1% to RMB247.6 billion in 2004 compared to RMB187.4 billion in 2003, in line with our business growth. The increase in the average yield of corporate loans reflected the effect of the increase in the PBOC benchmark rates in October 2004.

Interest income from discounted bills increased by 70.7% to RMB2.9 billion in 2004 compared to RMB1.7 billion in 2003, primarily due to a significant increase in the average balance. The average balance of discounted bills increased by 62.4% to RMB78.9 billion in 2004 compared to RMB48.6 billion in 2003, primarily attributable to increased market demand for this product and our efforts to expand our discounted bill portfolio. The average yield increased to 3.62% in 2004 compared to 3.44% in 2003, primarily due to a combination of: (i) increased market interest rates, reflecting the tightened monetary policy in the PRC, and (ii) an increase in the PBOC benchmark rediscount rate, which serves as the benchmark for the market interest rate on discounted bills, from 2.97% to 3.24% in March 2004.

Interest income from retail loans increased by 85.0% to RMB2.4 billion in 2004 compared to RMB1.3 billion in 2003, primarily due to an increase in the average balance and, to a lesser extent, an increase in the average yield. The average balance of retail loans increased by 79.0% to RMB45.8 billion in 2004 compared to RMB25.6 billion in 2003, primarily due to an increase in the average balance of residential mortgage loans, which resulted from increased market demand and our efforts to expand this business. The average yield increased to 5.15% in 2004 compared to 4.98% in 2003, reflecting the effect of the increase in the PBOC benchmark rates on October 29, 2004.

Interest Income from Investments

Interest income from investments has been the second largest component of our interest income, representing 11.5%, 12.6% and 16.6% of our interest income for the years ended December 31, 2005, 2004 and 2003, respectively.

Interest income from investments increased by 12.7% to RMB3.0 billion in 2005 compared to RMB2.6 billion in 2004, primarily due to an increase in the average yield, coupled with an increase in the average balance. The average yield increase to 3.13% in 2005 from 2.89% in 2004, primarily due to (i) an increase in our investments in higher-yielding securities, including debt securities issued by banks and other financial institutions and PRC corporate commercial paper following the introduction of this product in May 2005, and (ii) an increase in market interest rates for foreign currency-denominated debt securities, reflecting the increase in LIBOR since the second half of 2004. The average balance increased by 4.1% to RMB95.2 billion in 2005 compared to RMB91.5 billion in 2004, primarily due to an increase in our funding from customer deposits.

Interest income from investments increased by 6.0% to RMB2.6 billion in 2004 compared to RMB2.5 billion in 2003, primarily due to an increase in the average balance. The average balance of investments increased by 6.1% to RMB91.5 billion in 2004 compared to RMB86.3 billion in 2003, primarily due to an increase in our holdings of PBOC bills, PRC government bonds, bonds issued by the PRC policy banks, and overseas debt securities. This increase resulted from an increase in our funding from customer deposits and our efforts to diversify the composition of our interest-earning assets. The average yield was 2.89% in both 2004 and 2003.

Interest Income from Balances with Central Bank

Interest income from balances with central bank increased by 12.1% to RMB836 million in 2005 compared to RMB746 million in 2004, primarily due to an increase in the average balance, which was partially offset by a decrease in the average yield. The average balance increased by 29.9% to RMB53.1 billion in 2005 from RMB40.9 billion in 2004, primarily due to increases in our statutory deposit reserves and surplus deposit reserves, reflecting an increase in deposits from customers. The average yield decreased to 1.57% in 2005 from 1.82% in 2004, primarily due to a reduction of the PBOC interest rate on surplus deposit reserves to 0.99% from 1.62% in March 2005.

Interest income from balances with central bank increased by 47.4% to RMB746 million in 2004 compared to RMB506 million in 2003, primarily due to an increase in the average balance, which was partially offset by a decrease in the average yield. The average balance increased by 52.1% to RMB40.9 billion in 2004 from RMB26.9 billion in 2003, primarily due to the growth of our statutory deposit reserves in line with the increase in deposits from customers and an increase in the statutory deposit reserve ratio to 7.5% in April 2004 from 7.0%. The average yield decreased to 1.82% in 2004 from 1.88% in 2003, primarily due to a reduction of the PBOC interest rate on surplus deposit reserves to 1.62% from 1.89% in December 2003.

Interest Income from Amounts Due from Banks and Other Financial Institutions

Interest income from amounts due from banks and other financial institutions increased by 25.6% to RMB1,002 million in 2005 compared to RMB798 million in 2004, primarily due to an increase in the average balance, which was partially offset by a decrease in the average yield. The average balance increased by 31.8% to RMB40.4 billion in 2005 compared to RMB30.7 billion in 2004, primarily due to increased funding from our customer deposits, which allowed us to increase our lending activity in the inter-bank market. The decrease in the average yield to 2.48% in 2005 compared to 2.60% in 2004 primarily reflected a decrease in the interest rates for inter-bank placements, primarily due to the increased money supply in the inter-bank market, partially offset by an increase in the interest rates on inter-bank deposits resulting from our efforts to seek higher-yielding deposits with banks and other financial institutions following the PBOC's abolition of limits on interest rates on these deposits in March 2005.

Interest income from amounts due from banks and other financial institutions increased by 41.7% to RMB798 million in 2004 compared to RMB563 million in 2003, primarily due to an increase in the average balance, coupled with an increase in the average yield. The average balance increased by 27.1%, to RMB30.7 billion in 2004 compared to RMB24.1 billion in 2003, primarily due to increased funding from our customer deposits. The average yield increased to 2.60% in 2004 compared to 2.33% in 2003 primarily due to an increase in the interest rates for inter-bank placements, reflecting the effect of a tightened money supply in China.

Interest Expense

Interest expense increased by 36.0% to RMB9.2 billion in 2005 compared to RMB6.8 billion in 2004, due to an increase in the average balance of interest-bearing liabilities, in particular with respect to deposits from customers, and an increase in the average cost of interest-bearing liabilities. Interest expense increased by 37.4% to RMB6.8 billion in 2004 compared to RMB4.9 billion in 2003, primarily due to an increase in the average balance of interest-bearing liabilities, in particular with respect to deposits from customers. The average cost on interest-bearing liabilities was 1.52%, 1.34% and 1.30% in 2005, 2004 and 2003, respectively.

Interest Expense on Deposits from Customers

Historically, deposits from customers have been our primary source of funding. Interest expense on deposits from customers represented 81.8%, 75.4% and 78.3% of our total interest expense for the years ended December 31, 2005, 2004 and 2003, respectively.

Interest expense on deposits from customers increased by 47.7% to RMB7.6 billion in 2005 compared to RMB5.1 billion in 2004, due to an increase of 25.7% in the average balance and an increase in the average cost to 1.37% from 1.17%. Interest expense on deposits from customers increased by 32.3% to RMB5.1 billion in 2004 compared to RMB3.9 billion in 2003, primarily due to an increase of 31.8% in the average balance of deposits from customers. The average cost remained effectively stable at 1.17% in 2004 compared to 1.16% in 2003.

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

	For the Year Ended December 31,								
	2003			2004			2005		
	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]									
Demand	127,082	1,088	0.86%	165,304	1,440	0.87%	194,522	1,924	0.99%
Time	69,385	1,296	1.87	101,109	1,823	1.80	138,578	2,912	2.10
Subtotal	196,467	2,384	1.21	266,413	3,263	1.22	333,100	4,836	1.45
Retail deposits									
Demand	65,571	417	0.64	84,741	540	0.64	104,593	713	0.68
Time	70,343	1,065	1.51	86,834	1,313	1.51	113,026	2,009	1.78
Subtotal	135,914	1,482	1.09	171,575	1,853	1.08	217,619	2,722	1.25
Total deposits from customers	332,381	3,866	1.16%	437,988	5,116	1.17%	550,719	7,558	1.37%

(1) Consists of deposits from corporate customers, government authorities and other organizations.

The largest component of our interest expense on deposits from customers has been interest expense on corporate deposits, representing 64.0%, 63.8% and 61.7% of our total interest expense on deposits from customers in 2005, 2004 and 2003, respectively.

2005 Compared to 2004. Interest expense on corporate deposits increased by 48.2% to RMB4.8 billion in 2005 compared to RMB3.3 billion in 2004, primarily due to an increase in the average balance of our corporate deposits as a result of the expansion of our branch network and our marketing efforts, and an increase in the average cost to 1.45% in 2005 from 1.22% in 2004.

Interest expense on corporate time deposits increased by 59.7%, primarily due to an increase in the average balance, coupled with an increase in the average cost. The average balance of our corporate time deposits increased by 37.1% to RMB138.6 billion in 2005 compared to RMB101.1 billion in 2004. As a percentage of our total corporate deposits, the average balance of corporate time deposits increased to 41.6% in 2005 compared to 38.0% in 2004, reflecting the greater increase in time deposits following the increase in the PBOC benchmark rates for time deposits in October 2004. The average cost on corporate time deposits increased to 2.10% in 2005 compared to 1.80% in 2004 primarily due to a combination of (i) an increase in the PBOC benchmark rates in October 2004, and (ii) an increase in interest rates on foreign currency-denominated deposits, reflecting an increase in market interest rates.

Interest expense on corporate demand deposits increased by 33.6%, primarily due to an increase in the average balance, coupled with an increase in the average cost to 0.99% in 2005 compared to 0.87% in 2004, reflecting the effect of the increased market interest rates for foreign currency-denominated deposits. The average balances of corporate demand deposits increased by 17.7% to RMB194.5 billion in 2005 compared to RMB165.3 billion in 2004.

Interest expense on retail deposits increased by 46.9% to RMB2.7 billion in 2005 compared to RMB1.9 billion in 2004, primarily due to an increase in the average balance, coupled with an increase in the average cost to 1.25% in 2005 compared to 1.08% in 2004. Interest expense on retail time deposits increased by 53.0%, primarily due to an increase in the average balance and an increase in the average cost to 1.78% in 2005 compared to 1.51% in 2004, primarily reflecting the effect of the increase in the PBOC benchmark rates for time deposits in October 2004. Interest expense on retail demand deposits increased by 32.0% primarily due to an increase in the average balance and, to a lesser extent, an increase in the average cost to 0.68% in 2005 compared to 0.64% in 2004, primarily reflecting the effect of increases in the PBOC benchmark rates on foreign currency-denominated deposits since early 2005. The increase in the average balances of our retail time and demand deposits was attributable to the expansion of our branch network and our marketing efforts. As a percentage of our total retail deposits, the average balance of retail time deposits increased to 51.9% in 2005 compared to 50.6% in 2004, reflecting the greater increase in time deposits following the increase in the PBOC benchmark rates for time deposits in October 2004.

2004 Compared to 2003. Interest expense on corporate deposits increased by 36.9% to RMB3.3 billion in 2004 compared to RMB2.4 billion in 2003, primarily due to an increase in the average balances of both corporate time and demand deposits in line with our overall business growth. As a percentage of our total corporate deposits, the average balance of corporate time deposits increased to 38.0% in 2004 compared to 35.3% in 2003. The average cost on corporate time deposits decreased to 1.80% in 2004 compared to 1.87% in 2003, primarily due to an increase in short-term time deposits compared to longer-term deposits, partially offset by the impact of the increase in the PBOC benchmark rates in October 2004. The average cost on corporate demand deposits remained effectively stable at 0.87% in 2004 compared to 0.86% in 2003.

Interest expense on retail deposits increased by 25.0% to RMB1.9 billion in 2004 compared to RMB1.5 billion in 2003, primarily due to an increase in the average balance, reflecting the expansion of our branch network and our marketing efforts. The average cost remained effectively stable at 1.08% in 2004 compared to 1.09% in 2003.

Interest Expense on Amounts Due to Banks and Other Financial Institutions

The largest component of amounts due to banks and other financial institutions consists of demand deposits from non-bank financial institutions, such as securities firms.

Interest expense on amounts due to banks and other financial institutions decreased by 27.0% to RMB1,076 million in 2005 compared to RMB1,474 million in 2004, primarily due to a decrease in the average balance, partially offset by an increase in the average cost to 2.32% in 2005 compared to 2.25% in 2004. The average balance decreased by 29.4% to RMB46.3 billion in 2005 compared to RMB65.6 billion in 2004, primarily due to a decrease in our inter-bank placements. The increase in the average cost was primarily attributable to a combination of (i) an increase in the LIBOR-based market interest rates for foreign currency-denominated inter-bank deposits, and (ii) an increase in the interest rates on our RMB-denominated inter-bank time deposits, reflecting an increase in market interest rates.

Interest expense on amounts due to banks and other financial institutions increased by 42.7% to RMB1,474 million in 2004 compared to RMB1,033 million in 2003, primarily due to a 39.7% increase in the average balance. The increase in the average balance to RMB65.6 billion in 2004 compared to RMB46.9 billion in 2003 was primarily due to our increased resales of discounted bills to other banks and our increased acceptance of inter-bank time deposits with longer maturities to reduce maturity mismatches in our assets and liabilities. The average cost increased to 2.25% in 2004 compared to 2.20% in 2003, primarily due to a combination of (i) the increase in our inter-bank time deposits with longer maturities, which generally bore higher interest rates than other inter-bank deposits, and (ii) the increase in market interest rates for inter-bank placements.

Interest Expense on Amount Due to Central Bank

We did not incur any significant interest expense on amount due to central bank in 2005. Interest expense on amount due to central bank decreased by 50.0% to RMB20 million in 2004 compared to RMB40 million in 2003. The decrease from 2003 to 2005 was primarily due to decreases in the average balance of amount due to central bank, reflecting our reduced funding through rediscounting (i.e., selling) discounted bills to the PBOC as a result of our increased funding from other sources.

Interest Expense on Issued Debt

Interest expense on our total issued debt increased by 237.6% to RMB601 million in 2005 compared to RMB178 million in 2004, primarily due to an increase in the average balance and, to a lesser extent, an increase in the average cost. These increases resulted from our issuance of fixed-term notes in 2005 and the other debt issuances between March and November 2004 on which we paid interest for all or most of 2005, whereas we paid interest on debt issued in 2004 for only a portion of the year. We did not incur any interest expense on issued debt in 2003 as we did not have any issued debt outstanding in that year.

We issued certificates of deposit in U.S. dollars in 2004, primarily for the purpose of increasing our foreign currency funding to expand our foreign exchange business. The increase in the average cost on these certificates of deposit in 2005 compared to 2004 was primarily attributable to an increase in the LIBOR rate.

We issued convertible bonds and subordinated notes in 2004 in an effort to increase our supplementary capital. Our convertible bonds bear coupon interest rates of 1.0% for the first year, 1.375% for the second year, 1.75% for the third year, 2.125% for the fourth year and 2.5% for the fifth year, and can be converted into our shares at the holder's option at a determined conversion price. An additional 6% interest will be paid to bond holders who have not converted the bonds into shares at maturity. The average cost on these convertible bonds, representing their effective interest rates, reflects (i) the coupon rates on these bonds and the 6% additional interest payable upon redemption at maturity, and (ii) the fair value of the conversion option at the date of issuance. See Note 26(b) to the Accountants' Report in Appendix I to this prospectus.

The fixed-term notes we issued in 2005 bear interest rates lower than the PBOC benchmark interest rates on deposits from customers of the same maturity, reflecting our continued efforts to seek relatively low-cost funding sources in an effort to reduce our interest expense.

Net Interest Spread and Net Interest Margin

Our net interest spread increased to 2.67% in 2005 compared to 2.60% in 2004, which in turn increased from 2.47% in 2003. The increase in net interest spread from 2003 to 2005 reflected the higher rate of growth in the average yield on our interest-earning assets compared to the growth in the average cost on our interest-bearing liabilities in this period.

Our net interest income increased by 16.4% to RMB16.6 billion in 2005 compared to RMB14.3 billion in 2004, which in turn increased by 41.2% compared to RMB10.1 billion in 2003. Our net interest income increased at a higher rate than the average balance of our interest-earning assets from 2003 to 2005. As a result, our net interest margin increased to 2.69% in 2005 compared to 2.67% in 2004, which in turn increased from 2.54% in 2003.

Net Fee and Commission Income

Net fee and commission income represented 8.2%, 5.7% and 5.0% of our total operating income for the years ended December 31, 2005, 2004 and 2003, 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,		
	2003	2004	2005
	(in millions of RMB)		
Fee and commission income			
Bank card fees	198	362	570
Remittance and settlement fees(1)	237	301	429
Agency services fees	157	167	315
Commissions from credit commitment and loan business	93	140	186
Trust services fees	21	74	101
Others(2)	87	143	255
Subtotal	793	1,187	1,856
Fee and commission expenses	(234)	(298)	(289)
Net fee and commission income	559	889	1,567

(1) Consists primarily of settlement and remittance fees from corporate and retail customers and management fees on accounts with small balances.

(2) Consists primarily of fees from wealth management services, certification fees, commissions on derivative products (including interest rate and foreign exchange options and swaps) and fees from safe deposit box services.

Our net fee and commission income increased by 76.3% to RMB1,567 million in 2005 compared to RMB889 million in 2004, which in turn increased by 59.0% compared to RMB559 million in 2003. These increases resulted from a combination of increases in all categories of fees and commissions, particularly bank card fees, remittance and settlement fees and agency services fees.

Bank card fee income increased by 57.5% to RMB570 million in 2005 compared to RMB362 million in 2004, which in turn increased by 82.8% compared to RMB198 million in 2003. This increase in bank card fee income from 2003 to 2005 was primarily due to increased transaction volumes in our bank cards, particularly credit cards, reflecting our increased marketing efforts.

Remittance and settlement fees increased by 42.5% to RMB429 million in 2005 compared to RMB301 million in 2004, primarily due to a combination of (i) an increase in the volume of remittance and settlement transactions, and (ii) our starting to charge management fees to our retail customers on accounts with small balances in July 2005. Remittance and settlement fee income increased by 27.0% to RMB301 million in 2004 compared to RMB237 million in 2003, primarily as a result of an increase in transaction volumes.

Agency services fees increased by 88.6% to RMB315 million in 2005 compared to RMB167 million in 2004, primarily due to a combination of (i) our starting to underwrite PRC corporate commercial paper following the introduction of this product in the PRC in May 2005, and (ii) increased volumes of transactions in securities and insurance products on behalf of customers. Agency services fees increased by 6.4% to RMB167 million in 2004 compared to RMB157 million in 2003, primarily due to increased transaction volumes in all categories of agency services.

Commissions from the credit commitment and loan business increased by 32.9% to RMB186 million in 2005 compared to RMB140 million in 2004, which in turn increased by 50.5% compared to RMB93 million in 2003. This increase from 2003 to 2005 was primarily due to increased transaction volumes in line with the growth of our corporate customer base.

Trust services fee income increased by 36.5% to RMB101 million in 2005 from RMB74 million in 2004, which in turn increased by 252.4% from RMB21 million in 2003. This increase in trust services fee income from 2003 to 2005 was primarily due to increases in the volume of assets under custody and transaction volumes of fund products.

Other fees increased by 78.3% to RMB255 million in 2005 compared to RMB143 million in 2004, primarily due to a combination of (i) our receipt of a special bonus reward from VISA and MasterCard, reflecting the increased volume of our credit card transactions through the VISA and MasterCard networks, (ii) an increase in fees from wealth management services, reflecting increased demand from our customers, and (iii) an increase in payment processing fees for trust funds, reflecting increased transaction volumes. Other fees increased by 64.4% to RMB143 million in 2004 compared to RMB87 million in 2003, primarily due to increased fees from wealth management services for customers.

Our fee and commission expenses decreased by 3.0% to RMB289 million in 2005 compared to RMB298 million in 2004, primarily due to a decrease in commission expenses on foreign exchange options as a result of decreased transaction volumes, reflecting our customers' decreased demand for this product, partially offset by an increase in fees paid to VISA and MasterCard as a result of increased volumes of credit card transactions. Our fee and commission expenses increased by 27.4% to RMB298 million in 2004 compared to RMB234 million in 2003, primarily due to increases in transaction fees we paid to other banks for transactions conducted by our bank card customers through other banks' ATMs and fees paid to VISA and MasterCard as a result of increased volumes of credit card transactions, partially offset by a decrease in commission expenses on foreign exchange options due to decreased transaction volumes resulting from our customers' decreased demand for this product.

Other Net Income

Other net income represented 5.2%, 3.2% and 4.4% of our total operating income for the years ended December 31, 2005, 2004 and 2003, respectively. The following table sets forth, for the years indicated, the principal components of our other net income.

	For the Year Ended December 31,		
	2003	**2004**	**2005**
	(in millions of RMB)		
Net gain arising from foreign currency dealings	299	341	471
Net gain/(loss) on financial instruments at fair value through profit or loss	123	(11)	428
Net gain on disposal of available-for-sale financial assets	19	33	5
Net gain on disposal of fixed assets	5	9	4
Rental income	45	55	59
Others(1)	—	68	38
Total other net income	491	495	1,005

(1) Consists primarily of dividend income and CMBI's other net income.

Other net income increased by 103.0% to RMB1,005 million in 2005 compared to RMB495 million in 2004, primarily due to increases in the net gain on financial instruments at fair value through profit or loss and the net gain arising from foreign currency dealing. Other net income increased by 0.8% to RMB495 million in 2004 compared to RMB491 million in 2003, primarily due to increases in the net gain arising from foreign currency dealings and in other income, partially offset by a net loss on financial instruments at fair value through profit or loss.

We recorded a net gain on financial instruments at fair value through profit or loss in an amount of RMB428 million in 2005, compared to a net loss of RMB11 million in 2004 and a net gain of RMB123 million in 2003. The RMB428 million net gain in 2005 was primarily attributable to unrealized gains on these financial instruments, representing an increase in their fair value during the year, and interest income on debt securities in this portfolio. The increase in fair value was primarily attributable to (i) an increase in the market prices of RMB-denominated debt securities as a result of the decrease in market interest rates, and (ii) a significant increase in our trading portfolio in anticipation of and in response to increased trading volumes with our customers. The RMB11 million net loss in 2004 was primarily attributable to unrealized losses on debt securities designated at fair value through profit or loss, which were primarily attributable to the decrease in the market prices of RMB-denominated debt securities following the increase in the PBOC benchmark rates in October 2004, partially offset by interest income on these debt securities. The RMB123 million net gain in 2003 was primarily attributable to interest income on debt securities designated at fair value through profit or loss and an increase in the fair value of these debt securities.

Net gain arising from foreign currency dealings increased by 38.1% to RMB471 million in 2005 compared to RMB341 million in 2004, which in turn increased by 14.0% compared to RMB299 million in 2003. This increase from 2003 to 2005 was primarily attributable to the increase in volumes of our foreign exchange transactions with our corporate and retail customers resulting from their increased demand, partially offset by a loss arising from the translation of foreign currency assets due to the appreciation of the Renminbi since the second half of 2005.

Our net gain on the disposal of available-for-sale financial assets decreased by 84.8% to RMB5 million in 2005 compared to RMB33 million in 2004, primarily attributable to a decrease in the volume of disposals of available-for-sale financial assets in 2005. Our net gain on the disposal of available-for-sale financial assets increased by 73.7% to RMB33 million in 2004 compared to RMB19 million in 2003, primarily due to the realization of gains upon our sales of available-for-sale debt securities.

Rental income increased by 7.3% to RMB59 million in 2005 compared to RMB55 million in 2004, which in turn increased by 22.2% compared to RMB45 million in 2003. This increase in rental income from 2003 to 2005 was primarily attributable to an increase in the amount of office space rented out in our head office building.

Net gain from disposal of fixed assets consists primarily of net realized gains from the sale of used electronic equipment (such as computers) and motor vehicles. Our net gain from the disposal of fixed assets decreased by 55.6% to RMB4 million in 2005 compared to RMB9 million in 2004, which represented an increase of 80.0% compared to RMB5 million in 2003. These changes reflected primarily the changes in the volume of fixed assets we sold.

Other income consists primarily of dividend income and CMBI's other net income. Other income decreased by 44.1% to RMB38 million in 2005 compared to RMB68 million in 2004. Other income increased to RMB68 million in 2004 compared to a negligible amount in 2003. These changes reflected primarily the changes in CMBI's other net income.

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,		
	2003	2004	2005
	(in millions of RMB)		
Staff costs	2,262	3,417	4,241
Business tax and surcharges	644	977	1,219
Depreciation	670	731	854
Rental expenses	493	575	693
Other general and administrative expenses[1]	1,447	1,732	2,108
Total operating expenses	5,516	7,432	9,115

(1) Consists primarily of promotion expenses, transportation expenses, communication and office expenses, travel expenses, utility expenses, legal expenses, audit fees and other expenses.

Our operating expenses increased by 22.6% to RMB9.1 billion in 2005 compared to RMB7.4 billion in 2004, which in turn increased by 34.7% compared to RMB5.5 billion in 2003. This resulted from an increase in all categories of operating expenses, but was particularly affected by increases in staff costs and business tax and surcharges. Our cost-to-income ratio was 41.10%, 41.18% and 43.62% in 2005, 2004 and 2003, respectively.

Staff Costs

Staff costs are the largest component of our operating expenses, representing 46.5%, 46.0% and 41.0% of our operating expenses for the years ended December 31, 2005, 2004 and 2003, respectively.

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

	For the Year Ended December 31,		
	2003	2004	2005
	(in millions of RMB)		
Salaries, bonuses and staff welfare	1,812	2,739	3,335
Contributions to defined contribution retirement schemes	181	335	428
Housing allowances	146	180	250
Others[1]	123	163	228
Total staff costs	2,262	3,417	4,241

(1) Consists of contributions to union fees and other miscellaneous staff costs.

Staff costs increased by 24.1% to RMB4.2 billion in 2005 compared to RMB3.4 billion in 2004, which in turn increased by 51.1% compared to RMB2.3 billion in 2003. The increase in staff costs from 2003 to 2005 resulted from a combination of increases in all categories of staff costs.

Our salaries, bonuses and staff welfare costs increased by 21.8% to RMB3.3 billion in 2005 compared to RMB2.7 billion in 2004, which in turn increased by 51.2% from RMB1.8 billion in 2003. This increase from 2003 to 2005 was primarily due to a combination of an increase in the number of our employees in line with the expansion of our branch network and business growth and an increase in the performance bonuses we paid in line with the growth of our net profit.

Our contributions to defined contribution retirement schemes increased by 27.8% to RMB428 million in 2005 compared to RMB335 million in 2004, which in turn increased by 85.1% compared to RMB181 million in 2003. This increase from 2003 to 2005 was primarily due to the increase in the number of our employees, the salary increases referred to above and increases in the contribution rates in certain regions.

Housing allowances increased by 38.9% to RMB250 million in 2005 compared to RMB180 million in 2004, which in turn increased by 23.3% compared to RMB146 million in 2003. This increase from 2003 to 2005 was primarily due to the increase in the number of our employees and the salary increases referred to above.

Other staff costs increased by 39.9% to RMB228 million in 2005 compared to RMB163 million in 2004, which in turn increased by 32.5% compared to RMB123 million in 2003. The increase from 2003 to 2005 was primarily due to the increase in the number of our employees and the salary increases referred to above.

Business Tax and Surcharges

Business tax and surcharges increased by 24.8% to RMB1,219 million in 2005 compared to RMB977 million in 2004, which in turn increased by 51.7% compared to RMB644 million in 2003. The increase in business tax and surcharges from 2003 to 2005 was due to an increase in our revenues subject to these taxes.

Depreciation

Depreciation expense increased by 16.8% to RMB854 million in 2005 compared to RMB731 million in 2004, which in turn increased by 9.1% compared to RMB670 million in 2003. The increase in depreciation expenses from 2003 to 2005 was primarily due to increased capital expenditures for electronic equipment, including our ATM network and computer equipment and other fixed assets.

Rental Expenses

Rental expenses increased by 20.5% to RMB693 million in 2005 compared to RMB575 million in 2004, which in turn increased by 16.6% compared to RMB493 million in 2003. The increase in rental expenses from 2003 to 2005 was primarily due to the increase in the number of our branches to meet the needs of our business growth.

Other General and Administrative Expenses

Other general and administrative expenses increased by 21.7% to RMB2.1 billion in 2005 compared to RMB1.7 billion in 2004, which in turn increased by 19.7% compared to RMB1.4 billion in 2003, reflecting our overall business growth.

Provisions for Impairment Losses

Provisions for impairment losses consist primarily of provisions on loans and other assets. Provisions for impairment losses increased by 18.6% to RMB3,637 million in 2005 compared to RMB3,066 million in 2004, which in turn increased by 37.1% compared to RMB2,236 million in 2003.

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

	For the Year Ended December 31,		
	2003	2004	2005
	(in millions of RMB)		
Provisions for loan impairment	2,139	2,764	3,575
Provisions/(releases) for impairment losses on deposits and placements with banks and other financial institutions	76	(15)	62
Provisions for impairment losses on other assets(1)	21	317	—
Total	2,236	3,066	3,637

(1) Consists primarily of provisions for impairment on repossessed assets.

The largest component of our provisions for impairment losses consists of provisions for loan impairment. Provisions for impairment losses on loans to customers increased by 29.3% to RMB3,575 million in 2005 compared to RMB2,764 million in 2004, which in turn increased by 29.2% compared to RMB2,139 million in 2003. For details on changes in our allowance for loan losses, including provisions for impairment losses, see "Assets and Liabilities — Assets — Allowance for Impairment Losses on Loans to Customers."

Our provisions for impairment losses on deposits and placements with banks and other financial institutions were RMB62 million in 2005 compared to releases of RMB15 million in 2004, primarily due to an increase in the year-end balance of deposits and placements with banks and other financial institutions in 2005, partially offset by a decrease in the historical loss ratio used in assessing these assets for impairment. We recognized releases of RMB15 million from the allowance for impairment losses on deposits and placements with banks and other financial institutions in 2004 compared to RMB76 million in 2003, primarily due to a decrease in the historical loss ratio.

Provisions for impairment losses on other assets consist primarily of provisions for impairment on repossessed assets, which represent the difference between the estimated realizable value and the book value of our repossessed assets. Provisions for impairment on other assets decreased to a negligible amount in 2005 compared to RMB317 million in 2004, primarily because the estimated realizable value of our repossessed assets remained stable in 2005. Provisions for impairment on other assets increased by RMB296 million to RMB317 million in 2004 compared to RMB21 million in 2003. This increase reflected a significant increase in provisions for impairment on repossessed assets in 2004, which resulted primarily from lower estimated realizable values of these assets in a tightened macroeconomic environment.

Profit Before Tax

As a result of the foregoing, our profit before tax increased by 24.8% to RMB6.5 billion for the year ended December 31, 2005 compared to RMB5.2 billion for the year ended December 31, 2004, which in turn increased by 51.5% compared to RMB3.4 billion for the year ended December 31, 2003.

Income Tax

The following table sets forth 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,		
	2003	2004	2005
	(in millions of RMB)		
Profit before tax	3,417	5,178	6,462
Notional tax on profit before tax, calculated at the statutory tax rate of 33%	1,127	1,709	2,133
Add/(less) the tax effect of the following items:			
Non-deductible expenses	395	502	861
Non-taxable income	(284)	(287)	(237)
Different income tax rates in other areas	(18)	(58)	(133)
Others	(14)	36	89
Income tax expense	1,206	1,902	2,713

Our income tax attributable to non-deductible expenses increased by 71.5% to RMB861 million in 2005 compared to RMB502 million in 2004, which in turn increased by 27.1% compared to RMB395 million in 2003. This increase from 2003 to 2005 was primarily attributable to an increase in non-deductible staff costs.

The tax savings attributable to our non-taxable income decreased by 17.4% to RMB237 million in 2005 compared to RMB287 million in 2004, primarily due to decreases in the non-taxable returns on PRC government bonds in 2005. The tax savings attributable to our non-taxable income increased slightly to RMB287 million in 2004 compared to RMB284 million in 2003. Our income tax in different regions of China is calculated at the tax rates and basis applicable to the relevant region in accordance with national and local tax rules. In the Shenzhen Special Economic Zone, where our head office and Shenzhen branch are located, we enjoy a preferential income tax rate of 15%, compared to the statutory tax rate of 33% elsewhere in China. The impact of the different income tax rates applicable to various tax jurisdictions resulted in a decrease in our tax expenses of RMB133 million, RMB58 million and RMB18 million in 2005, 2004 and 2003, respectively. The net effect of these items and other miscellaneous items produced effective tax rates of 42.0%, 36.7% and 35.3% in 2005, 2004 and 2003, respectively.

The following table sets forth the components of our income tax expenses.

	For the Year Ended December 31,		
	2003	2004	2005
	(in millions of RMB)		
Current income tax	808	2,321	3,025
Deferred income tax	398	(419)	(312)
Income tax expense	1,206	1,902	2,713

Our income tax expense increased by 42.6% to RMB2.7 billion in 2005 compared to RMB1.9 billion in 2004, which in turn increased by 57.7% compared to RMB1.2 billion in 2003. These increases were primarily due to an increase in our taxable income. Our deferred income tax credit decreased by 25.5% to RMB312 million in 2005 compared to RMB419 million in 2004, primarily due to a decrease in net provisions for impairment losses on loans to customers and other assets in excess of deductible provisions under the PRC tax rules. We realized a deferred income tax benefit of RMB398 million in 2003 primarily due to (i) the approval by the PRC tax authorities of an additional tax deduction for loans written off in that year, and (ii) tax deductions for the reversal of interest overdue for more than 90 days which was recognized as taxable income in earlier years pursuant to applicable regulations of the PRC State Administration of Taxation, which permitted commercial banks to make such reversals over a period of five years through 2005.

Net Profit

As a result of all the foregoing factors, our net profit increased by 14.4% to RMB3.7 billion in 2005 compared to RMB3.3 billion in 2004, which in turn increased by 48.2% compared to RMB2.2 billion in 2003.

SUMMARY SEGMENT OPERATING RESULTS

We have three principal business activities: corporate banking, retail banking and treasury operations, and operate in five geographical regions: Eastern China, Southern and Central China, Western China, Northern China, and others (currently, Hong Kong). 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.

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 Business Activities."

We use an intersegment fund transfer system as a tool to assess the performance of our business segments. These funds are borrowed and lent between our business segments at intersegment rates that are determined based on market rates. Intersegment interest expense and interest income recognized through the fund transfer system are eliminated in our consolidated financial statements. The intersegment net interest income of each segment accounts for both the interest income generated from funds lent to other segments and the interest expense paid on funds borrowed from other segments.

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

	For the Three Months Ended March 31,					
	2005			2006		
	Corporate Banking	Retail Banking	Treasury Business	Corporate Banking	Retail Banking	Treasury Business
		(unaudited)				
			(in millions of RMB)			
External net interest income[1]	2,738	150	832	2,991	96	1,339
Internal net interest (expense)/income[2]	(94)	951	(857)	(93)	774	(681)
Net interest income/(expense)	2,644	1,101	(25)	2,898	870	658
Net fee and commission income	123	117	5	202	250	(2)
Other net income	69	22	143	105	31	14
Operating income	2,836	1,240	123	3,205	1,151	670
Operating expenses	(1,147)	(770)	(117)	(1,266)	(852)	(129)
Provision for impairment losses	(545)	(63)	(19)	(557)	(151)	121
Total expenses	(1,692)	(833)	(136)	(1,823)	(1,003)	(8)
Profit/(loss) before tax	1,144	407	(13)	1,382	148	662

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

	For the Year Ended December 31,								
	2003			2004			2005		
	Corporate Banking	Retail Banking	Treasury Business	Corporate Banking	Retail Banking	Treasury Business	Corporate Banking	Retail Banking	Treasury Business
					(in millions of RMB)				
External net interest income/(expense)[1]	7,412	(207)[2]	2,914	11,057	497	2,738	12,309	526	3,807
Internal net interest (expense)/income[3]	(600)	2,434	(1,834)	(801)	2,956	(2,155)	(74)	3,488	(3,414)
Net interest income	6,812	2,227	1,080	10,256	3,453	583	12,235	4,014	393
Net fee and commission income/(expense)	305	214	(22)	421	421	(25)	681	777	19
Other net income	226	75	140	280	84	(1)	379	107	418
Operating income	7,343	2,516	1,198	10,957	3,958	557	13,295	4,898	830
Operating expenses	(2,913)	(2,246)	(354)	(4,070)	(2,922)	(437)	(4,944)	(3,637)	(530)
Provision for impairment losses	(1,960)	(200)	(76)	(2,660)	(421)	15	(3,176)	(399)	(62)
Total expenses	(4,873)	(2,446)	(430)	(6,730)	(3,343)	(422)	(8,120)	(4,036)	(592)
Profit before tax	2,470	70	768	4,227	615	135	5,175	862	238

(1) Represents net interest income/(expense) attributable to each segment's external customers or activities.
(2) Our retail banking segment incurred a net interest expense with respect to external third parties in 2003. This was because the retail banking segment's interest expense on retail deposits was greater than its interest income from retail loans, which in turn reflected the fact that the average balance of retail deposits was higher than the average balance of retail loans in that year.
(3) Represents net interest income/(expense) attributable to each segment's transactions with other segments.

Summary Geographical Segment Information

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

	For the Year Ended December 31,						For the Three Months Ended March 31,			
	2003		2004		2005		2005		2006	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
							(unaudited)			
	(in millions of RMB, except percentages)									
Eastern China	4,622	28.3%	7,372	32.4%	9,573	33.3%	1,898	30.7%	2,583	32.4%
Southern and central China(1)	6,874	42.1	7,645	33.6	9,940	34.6	2,542	41.2	3,327	41.8
Northern China	2,943	18.0	4,945	21.7	5,857	20.4	1,069	17.3	1,238	15.6
Western China	1,858	11.4	2,722	12.0	3,124	10.9	629	10.2	719	9.0
Others(2)	45	0.2	78	0.3	244	0.8	35	0.6	94	1.2
Total operating income	16,342	100.0%	22,762	100.0%	28,738	100.0%	6,173	100.0%	7,961	100.0%

(1) Includes our head office.
(2) Represents our Hong Kong branch and CMBI.

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, deposits from customers 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 95.6%, 96.4% and 95.1% of total deposits from customers for the years ended December 31, 2005, 2004 and 2003, respectively. For additional information about our short-term liabilities and sources of funds, see "Assets and Liabilities — Liabilities and Sources of Funds."

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. In addition, we invest in a significant amount of liquid assets such as PBOC bills and PRC government bonds, which give us the flexibility to meet potential liquidity requirements. If further liquidity requirements arise, we have access to the inter-bank money market, where we have historically been a net lender.

The following table sets forth, at March 31, 2006, the remaining maturities of our assets and liabilities.

	At March 31, 2006								
	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	Undated	Overdue	Total
	(in millions of RMB)								
Assets:									
Cash and balances with central bank[1]	15,966	—	—	—	—	—	42,596	—	58,562
Amounts due from banks and other financial institutions	13,410	25,317	8,845	9,411	1,238	245	—	—	58,466
Loans to customers, net[2]	—	45,571	98,434	215,406	70,008	67,059	—	4,114	500,592
Investment securities and other financial assets[3]	2,014	1,412	8,341	38,929	64,038	19,759	157	—	134,650
Other assets	3,197	1,064	646	321	125	4	9,039	14	14,410
Total assets	34,587	73,364	116,266	264,067	135,409	87,067	51,792	4,128	766,680
Liabilities:									
Amounts due to banks and other financial institutions	20,226	2,019	2,494	4,371	8,370	400	—	—	37,880
Deposits from customers	380,728	45,587	66,370	142,912	30,691	983	—	—	667,271
Financial liabilities at fair value through profit or loss	—	—	—	—	—	—	116	—	116
Certificates of deposit issued	—	—	—	—	1,202	—	—	—	1,202
Convertible bonds issued	—	—	—	—	42	—	—	—	42
Fixed-term notes issued	—	—	—	—	9,983	—	—	—	9,983
Subordinated notes issued	—	—	—	—	3,500	—	—	—	3,500
Other liabilities	10,124	1,551	1,390	868	117	15	—	—	14,065
Total liabilities	411,078	49,157	70,254	148,151	53,905	1,398	116	—	734,059
Liquidity gap	(376,491)	24,207	46,012	115,916	81,504	85,669	51,676	4,128	32,621
Cumulative liquidity gap	(376,491)	(352,284)	(306,272)	(190,356)	(108,852)	(23,183)	28,493	32,621	

(1) The undated balances with central bank represent the balance of our statutory deposit reserve funds and the fiscal deposits form PRC government authorities that we re-deposit with the PBOC pursuant to applicable PRC rules.

(2) Overdue loans to customers represent the principal amount of the loans on which principal is overdue. Loans on which interest but not principal is overdue are not included. For loans that are repayable in installments, only the portion of the loans that is overdue is shown as overdue, and the installments that are not yet due are included under the corresponding remaining maturities. The overdue amounts are net of allowance for impairment losses.

(3) The remaining maturities of investment securities and other financial assets are the remaining contract maturities of such securities and assets and do not necessarily represent our intentions with respect to such securities and assets.

CAPITAL RESOURCES

Shareholders' Equity

Our total shareholders' equity increased to RMB32.6 billion at March 31, 2006 from RMB26.0 billion at December 31, 2005, which in turn increased from RMB22.0 billion at December 31, 2004, and RMB18.4 billion at December 31, 2003.

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

	Shareholders' Equity
	(in millions of RMB)
At December 31, 2002	16,828
Net profit for the year	2,211
Dividends paid for the year 2002	(685)
At December 31, 2003	18,354
Net profit for the year	3,276
Dividends paid for the year 2003	(525)
Equity component of the convertible bonds issued	918
Change in fair value of available-for-sale financial assets	(65)
At December 31, 2004	21,958
Net profit for the year	3,749
Dividends paid for the year 2004	(753)
Conversion of convertible bonds	575
Reversal of net revaluation loss on disposal of available-for-sale financial assets	110
Changes in fair value of available-for-sale financial assets	359
At December 31, 2005	25,998
Net profit for the period	1,432
Conversion of convertible bonds	5,243
Reversal of net revaluation loss on disposal of available-for-sale financial assets	6
Changes in fair value of available-for-sale financial assets	(58)
At March 31, 2006	32,621

Debt

Convertible Bonds

In November 2004, we issued RMB6.5 billion of convertible bonds due 2009 in an effort to increase our supplementary capital. These convertible bonds bear coupon interest rates of 1.0% for the first year, 1.375% for the second year, 1.75% for the third year, 2.125% for the fourth year and 2.5% for the fifth year, and can be converted into our shares at the holder's option at a specified conversion price. The interest is paid once a year on every anniversary date of the issuance. An additional 6% interest will be paid to bond holders who have not converted the bonds into shares at maturity. The accreted interest is charged as interest expense on issued debt in our consolidated income statements. The initial conversion price on these bonds was RMB9.34 per share, which was adjusted to RMB6.23 per share effective June 17, 2005 to reflect the issuance of bonus shares in connection with the distribution of dividends in respect of the year ended December 31, 2004 and was further adjusted to RMB5.74 per share effective February 24, 2006 to reflect the issuance of bonus shares as a result of our split share structure reform. A bondholder may exercise the right to convert the bonds into our A Shares at any time in six months after the issuance date of the convertible bonds until maturity, which we refer to as the conversion period. A bondholder also has the right to require us to repurchase all or part of the convertible bonds held by such bondholder at a price equal to 108.5% of the nominal value if the closing price of our A Shares is lower than 75% of the then applicable conversion price for 20 consecutive business days within one year prior to maturity. The embedded options of the convertible bonds are accounted for in accordance with IAS 32 or IAS 39, depending on whether they are closely related to the host contract. See Note 2(k) to the Accountants' Report attached to this prospectus. During the conversion period, we may redeem any outstanding convertible bonds if the closing price of our A Shares is higher than 125% of the then applicable conversion price for 20 consecutive business days subject to CBRC approval and the satisfaction of other applicable conditions. At March 31, 2006, approximately RMB6,453 million in nominal value of the convertible bonds had been converted into 1,035,826,579 A Shares. The outstanding principal amount of the convertible bonds was approximately RMB47 million in nominal value at March 31, 2006.

Subordinated Bonds

We obtained CBRC approval to issue subordinated bonds up to an aggregate amount of RMB3.5 billion in 2004. In March 2004, we issued RMB2.5 billion of subordinated bonds due April 2009, which were purchased by China Pacific Insurance (Group) Co., Ltd. The interest rate on this series of subordinated bonds is 4.59%. In June 2004, we issued RMB1.0 billion of subordinated bonds due July 2009, of which RMB700 million was purchased by China Ping An Life Insurance Co., Ltd. and RMB300 million by Tai Kang Life Insurance Co., Ltd. The interest rate on this series of subordinated bonds is 5.10%.

Certificates of Deposit

In June 2004, we issued certificates of deposit at a nominal value of US$150 million. The certificates of deposits have a maturity of three years and bear interest at LIBOR + 0.35% per annum payable quarterly.

Fixed-Term Notes

In 2005, we obtained approval from the CBRC and the PBOC to issue fixed-term notes in an aggregate amount of up to RMB15 billion. In October 2005, we issued a total of RMB10 billion fixed-term notes that bear interest rates of 2.13% and 2.56% payable annually. These notes will mature 36 or 60 months after issuance.

Profit Distribution

In June 2006, we paid a dividend in the aggregate amount of RMB983 million, representing RMB0.08 per share, in respect of the year ended December 31, 2005. Of the RMB983 million, RMB153 million was paid to holders of new shares from the conversion of our convertible bonds during the first three months of 2006. We paid a dividend in the aggregate amount of RMB753 million, representing RMB0.11 per share, in respect of the year ended December 31, 2004. We paid a dividend in the aggregate amount of RMB525 million, representing RMB0.092 per share, in respect of the year ended December 31, 2003.

In addition, in light of the Global Offering, our Board of Directors proposed on June 30, 2006 and our shareholders approved in an extraordinary shareholders' general meeting on August 19, 2006 a special dividend of RMB0.18 per share to our holders of A Shares from our accumulated distributable profit at December 31, 2005. The total estimated amount of the special dividend is approximately RMB2,210 million.

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%. In March 2004, the CBRC introduced the New Capital Adequacy Regulations, which amended the method by which capital adequacy ratios are calculated. See "Regulation and Supervision — PRC Regulation and Supervision — Supervision Over Capital Adequacy." Our core capital, supplementary capital and risk-weighted assets are calculated in accordance with the requirements of the New Capital Adequacy Regulations and are 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.

	December 31,		March 31,
	2004	2005	2006
	(in millions of RMB)		
Core capital:			
Paid up ordinary share capital	6,848	10,374	12,279
Reserves	13,280	13,466	18,646
Total core capital	20,128	23,840	30,925
Supplementary capital:			
General provisions for doubtful debts	5,180	6,135	6,830
Subordinated bonds	3,500	2,800	2,800
Convertible bonds	6,500	5,864	42
Investment revaluation reserve	—	—	246
Total supplementary capital	15,180	14,799	9,918
Total capital base before deductions	35,308	38,639	40,843
Deductions:			
Investments in unconsolidated subsidiary and other long-term investments	62	108	8
Investment in commercial real estate	274	409	474
Total capital base after deductions(1)	34,972	38,122	40,361
Risk-weighted assets(2)	369,131	423,312	457,938
Core capital adequacy ratio	5.41%	5.57%	6.70%
Capital adequacy ratio	9.47%	9.01%	8.81%

(1) Also referred to in this prospectus as "regulatory capital."

(2) For details on the calculation of risk-weighted assets, see "Regulation and Supervision — PRC Regulation and Supervision — Supervision Over Capital Adequacy — Capital Adequacy Guidelines — Risk-weighted Assets."

Our capital adequacy ratio was 9.49% at December 31, 2003, and our core capital adequacy ratio was 6.17% at December 31, 2003. The ratios at December 31, 2003 are not comparable to those at December 31, 2004 and subsequent dates because they were calculated in accordance with PBOC guidelines which were replaced by the New Capital Adequacy Regulations.

OFF-BALANCE SHEET COMMITMENTS

Our off-balance sheet commitments consist primarily of loan commitments, credit card commitments, guarantees, letters of credit and acceptances. Loan commitments and credit card commitments are our commitments to extend credit. We issue guarantees and letters of credit to guarantee the performance of our customers to third parties. Bills of acceptance 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,			At March 31,
	2003	2004	2005	2006
	(in millions of RMB)			
Irrevocable guarantees	9,932	24,274	34,691	34,241
Irrevocable credit	14,833	21,058	22,436	25,424
Bills of acceptance	55,192	86,716	123,525	122,653
Loan commitments	1,168	1,072	3,333	3,563
Credit card commitments	4,806	9,204	19,731	20,568
Shipping guarantees	12	16	22	30
Total off-balance sheet commitments	85,943	142,340	203,738	206,479

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 March 31, 2006. This table is based on disclosure requirements applicable to domestic and foreign issuers in the United States and is presented for the convenience of our international investors.

	At March 31, 2006			
	Less than 1 Year	Between 1 and 5 Years	More than 5 Years	Total
	(face value in millions of RMB)			
On-balance sheet:				
Certificates of deposit issued	—	1,202	—	1,202
Convertible corporate bonds issued(1)	—	47	—	47
Subordinated term debts issued	—	3,500	—	3,500
Fixed-term notes(2)	—	10,000	—	10,000
Off-balance sheet:				
Capital commitments authorized and contracted for	324	—	—	324
Operating lease commitments	601	1,754	433	2,788
Redemption obligations(3)	3,504	9,596	—	13,100
Total	4,429	26,099	433	30,961

(1) The carrying value of our outstanding convertible bonds was RMB42 million at March 31, 2006.
(2) The carrying value of fixed-term notes was RMB9,983 million at March 31, 2006.
(3) Represents the face value of government bonds underwritten and sold by us which had not yet matured at March 31, 2006.

SELECTED, UNAUDITED FINANCIAL INFORMATION AT AND FOR THE SIX MONTHS ENDED JUNE 30, 2006

Under the rules of the SHSE on which our A Shares are listed, we are required to publish reports containing unaudited financial statements at and for the six months ended June 30 of each year. Because we published certain financial statements at and for the six months ended June 30, 2006 in China prior to the date of this prospectus, we have included our unaudited condensed financial statements at and for the six months ended June 30, 2006 in this prospectus. The unaudited condensed financial statements, comprising an income statement for the six months ended June 30, 2006 and 2005 and a balance sheet at June 30, 2006, together with selected explanatory notes, are included in Appendix II to this prospectus. They have been prepared in accordance with IFRS and reviewed by KPMG in accordance with SAS 700.

As we were not listed on the Hong Kong Stock Exchange during the six months ended June 30, 2006, the provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Hong Kong Listing Rules are not applicable to us during that six-month period.

Condensed Results of Operations for the Six Months Ended June 30, 2006 and 2005

The condensed, consolidated results of operations for the six months ended June 30, 2006 and 2005 set forth below are derived from Appendix II to this prospectus. You should read the following information in conjunction with Appendix II to this prospectus. Our results of operations for the six months ended June 30, 2006 may not be indicative of our results of operations for the full year ending December 31, 2006.

Net Interest Income

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

	For the Six Months Ended June 30,	
	2005	2006
	(unaudited)	
	(in millions of RMB)	
Interest income	11,965	15,270
Interest expense	(4,064)	(5,842)
Net interest income	7,901	9,428

Our net interest income increased by 19.3% to RMB9.4 billion for the six months ended June 30, 2006 compared to RMB7.9 billion for the six months ended June 30, 2005.

The table below sets forth, for the periods indicated, the average balances of our assets and liabilities and the related interest income or expense and average yields (for assets) and costs (for liabilities). The average balances of interest-earning assets and interest-bearing liabilities are the average of the daily balances. The average balances of the allowance for impairment losses are the average of the quarterly balances. The average balances of non-interest-earning assets and non-interest-bearing liabilities are the average of the balances at January 1 and June 30 for the six months ended June 30, 2006 and 2005.

	For the Six Months Ended June 30,					
	2005			2006		
	Average Balance	Interest Income	Average Yield[1]	Average Balance	Interest Income	Average Yield[1]
	(unaudited)					
	(in millions of RMB, except percentages)					
Assets						
Loans to customers, total	404,365	9,749	4.86%	506,788	12,213	4.86%
Investments	94,021	1,442	3.09	116,565	1,755	3.04
Balances with central bank[2]	46,989	390	1.67	61,348	480	1.58
Amounts due from banks and other financial institutions[3]	34,908	384	2.22	57,623	822	2.88
Total interest-earning assets	580,283	11,965	4.16	742,324	15,270	4.15
Allowance for impairment losses	(11,981)			(14,546)		
Non-interest-earning assets[4]	28,539			32,025		
Total assets	596,841	11,965	4.04%	759,803	15,270	4.05%

	For the Six Months Ended June 30,					
	2005			2006		
	Average Balance	Interest Expense	Average Cost[1]	Average Balance	Interest Expense	Average Cost[1]
	(unaudited)					
	(in millions of RMB, except percentages)					
Liabilities						
Deposits from customers	514,263	3,283	1.29%	657,446	4,963	1.52%
Amounts due to banks and other financial institutions[5]	43,299	505	2.35	52,749	635	2.43
Issued debt[6]	10,057	276	5.53	15,102	244	3.26
Total interest-bearing liabilities	567,619	4,064	1.44	725,297	5,842	1.62
Non-interest-bearing liabilities[7]	11,008			11,055		
Total liabilities	578,627	4,064	1.42%	736,352	5,842	1.60%
Net interest income		7,901			9,428	
Net interest spread[8]			2.72%			2.53%
Net interest margin[9]			2.75%			2.56%

(1) Calculated on an annualized basis.
(2) Consists primarily of statutory deposit reserves and surplus deposit reserves.
(3) Consists primarily of inter-bank placements, deposits with other banks and other financial institutions, and amounts due under resale (reverse repurchase) agreements.
(4) Consists primarily of cash, accounts receivable, financial assets at fair value through profit or loss, repossessed assets, property and equipment, deferred tax assets and other assets.
(5) Consists primarily of inter-bank placements, deposits from other banks and other financial institutions, amounts due under repurchase agreements, and discounted bills resold to other banks.
(6) Consists of certificates of deposit, convertible bonds, subordinated notes and fixed-term notes.
(7) Consists of taxes payable, interest payable, salaries and welfare payable and other liabilities.
(8) Calculated as the difference between the average yield on total interest-earning assets and the average cost on total interest-bearing liabilities.
(9) Calculated by dividing net interest income by the average balance of total interest-earning assets.

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

	For the Six Months Ended June 30,		
	2006 vs. 2005		
	Increase/(Decrease) Due to		Net Increase/ (Decrease)[3]
	Volume[1]	Rate[2]	
	(unaudited)		
	(in millions of RMB)		
Assets			
Loans to customers, total	2,469	(5)	2,464
Investments	346	(33)	313
Balances with central bank	119	(29)	90
Amounts due from banks and other financial institutions	250	188	438
Changes in interest income	3,184	121	3,305
Liabilities			
Deposits from customers	914	766	1,680
Amounts due to banks and other financial institutions	110	20	130
Issued debt	138	(170)	(32)
Changes in interest expense	1,162	616	1,778
Changes in net interest income	2,022	(495)	1,527

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

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

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

Interest Income

Our interest income increased by 27.6% to RMB15.3 billion for the six months ended June 30, 2006 compared to RMB12.0 billion for the six months ended June 30, 2005, primarily due to an increase in the average balance of interest-earning assets. The average yield on interest-earning assets decreased slightly to 4.15% for the six months ended June 30, 2006 compared to 4.16% for the six months ended June 30, 2005.

Interest Income from Loans to Customers

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

	For the Six Months Ended June 30,					
	2005			2006		
	Average Balance	Interest Income	Average Yield(1)	Average Balance	Interest Income	Average Yield(1)
	(unaudited)					
	(in millions of RMB, except percentages)					
Corporate loans	268,461	6,849	5.14%	316,439	8,585	5.47%
Discounted bills	77,441	1,313	3.42	112,377	1,384	2.48
Retail loans	58,463	1,587	5.47	77,972	2,244	5.80
Total loans to customers	404,365	9,749	4.86%	506,788	12,213	4.86%

(1) Calculated on an annualized basis.

Interest income from loans to customers increased by 25.3% to RMB12.2 billion for the six months ended June 30, 2006 compared to RMB9.7 billion for the six months ended June 30, 2005, primarily due to an increase in the average balance. The average yield remained stable at 4.86% for the six months ended June 30, 2006 and for the six months ended June 30, 2005.

The largest component of our interest income from loans is interest income from corporate loans, representing 70.3% and 70.3% of our total interest income from loans to customers for the six months ended June 30, 2006 and 2005, respectively. Interest income from corporate loans increased by 25.3% to RMB8.6 billion for the six months ended June 30, 2006 compared to RMB6.8 billion for the six months ended June 30, 2005, primarily due to an increase in the average balance, coupled with an increase in the average yield. The average balance of corporate loans increased by 17.9% to RMB316.4 billion for the six months ended June 30, 2006 compared to RMB268.5 billion for the six months ended June 30, 2005, reflecting our overall business growth. The increase in the average yield on corporate loans to 5.47% for the six months ended June 30, 2006 compared to 5.14% for the six months ended June 30, 2005 was primarily due to a combination of (i) an increase in the PBOC benchmark rate in April 2006, and (ii) the factors that contributed to the increase in the average yield on corporate loans for the three months ended March 31, 2006 compared to the corresponding period in 2005, which continued to affect our average yield in the second quarter of 2006. See "— Results of Operations — Three Months Ended March 31, 2006 Compared to Three Months Ended March 31, 2005 — Net Interest Income — Interest Income — Interest Income from Loans to Customers" for a discussion of the factors that contributed to the increase in the average yield on corporate loans for the three months ended March 31, 2006 compared to the corresponding period in 2005.

Interest income from discounted bills increased by 5.4% to RMB1.4 billion for the six months ended June 30, 2006 compared to RMB1.3 billion for the six months ended June 30, 2005, primarily due to a significant increase in the average balance, which was substantially offset by a decrease in the average yield. The average balance of discounted bills increased by 45.1% to RMB112.4 billion for the six months ended June 30, 2006 compared to RMB77.4 billion for the six months ended June 30, 2005, primarily reflecting an increase in our discounted bill portfolio from the second half of 2005 through the first quarter of 2006. The average yield decreased to 2.48% for the six months ended June 30, 2006 compared to 3.42% for the six months ended June 30, 2005, primarily due to an overall decrease in the market interest rates for discounted bills until May 2006.

Interest income from retail loans increased by 41.4% to RMB2.2 billion for the six months ended June 30, 2006 compared to RMB1.6 billion for the six months ended June 30, 2005, primarily due to an increase in the average balance and, to a lesser extent, an increase in the average yield. The average balance of retail loans increased by 33.4% to RMB78.0 billion for the six months ended June 30, 2006 compared to RMB58.5 billion for the six months ended June 30, 2005, reflecting the overall growth in our retail banking business, which was primarily attributable to the growth of our residential mortgage loans. The average yield increased to 5.80% for the six months ended June 30, 2006 compared to 5.47% for the six months ended June 30, 2005, primarily due to the repeal of the PBOC's mandatory discount rates on residential mortgage loans in March 2005 and the increase in the PBOC benchmark rates in April 2006.

Interest Income from Investments

Interest income from investments increased by 21.7% to RMB1.8 billion for the six months ended June 30, 2006 compared to RMB1.4 billion for the six months ended June 30, 2005, primarily due to an increase in the average balance, partially offset by a decrease in the average yield. The average balance increased by 24.0% to RMB116.6 billion for the six months ended June 30, 2006 compared to RMB94.0 billion for the six months ended June 30, 2005, primarily due to an increase in our funding from customer deposits. The average yield decreased to 3.04% for the six months ended June 30, 2006 compared to 3.09% for the six months ended June 30, 2005, primarily due to a relatively larger proportion of short-term debt securities, which bear relatively low interest rates, in our investment portfolio in the first half of 2006, partially offset by the continued increase in the market interest rates for foreign currency-denominated debt securities, reflecting the continued increase in LIBOR.

Interest Income from Balances with Central Bank

Interest income from balances with central bank increased by 23.1% to RMB480 million for the six months ended June 30, 2006 compared to RMB390 million for the six months ended June 30, 2005, primarily due to an increase in the average balance, which was partially offset by a decrease in the average yield. The average balance increased by 30.6% to RMB61.3 billion for the six months ended June 30, 2006 compared to RMB47.0 billion for the six months ended June 30, 2005, primarily due to an increase in our statutory deposit reserves, in line with an increase in deposits from customers. The average yield decreased to 1.58% for the six months ended June 30, 2006 compared to 1.67% for the six months ended June 30, 2005, primarily due to a reduction of the PBOC interest rate on surplus deposit reserves to 0.99% from 1.62% in March 2005.

Interest Income from Amounts Due from Banks and Other Financial Institutions

Interest income from amounts due from banks and financial institutions increased by 114.1% to RMB822 million for the six months ended June 30, 2006 compared to RMB384 million for the six months ended June 30, 2005, primarily due to an increase in the average balance, coupled with an increase in the average yield. The average balance increased by 65.1% to RMB57.6 billion for the six months ended June 30, 2006 compared to RMB34.9 billion for the six months ended June 30, 2005, primarily attributable to the increase in the average balance in the first quarter of 2006. In the second quarter of 2006, the average balance remained effectively stable compared to the first quarter of 2006, reflecting an increased allocation of our funds to higher-yielding assets in the second quarter of 2006. The average yield increased to 2.88% for the six months ended June 30, 2006 compared to 2.22% for the six months ended June 30, 2005, primarily due to (i) an increase in our placement of inter-bank time deposits, which bear higher interest rates than inter-bank demand deposits following the PBOC's removal of restrictions on inter-bank time deposits and the abolition of limits on interest rates for these deposits in June 2005, and (ii) an increase in U.S. interest rates, which increased the yield on our U.S. dollar-denominated inter-bank placements and deposits.

Interest Expense

Interest expense increased by 43.8% to RMB5.8 billion for the six months ended June 30, 2006 compared to RMB4.1 billion for the six months ended June 30, 2005, primarily due to an increase in the average balance of our interest-bearing liabilities, coupled with an increase in the average cost of our interest-bearing liabilities to 1.62% for the six months ended June 30, 2006 compared to 1.44% for the six months ended June 30, 2005.

Interest Expense on Deposits from Customers

Interest expense on deposits from customers increased by 51.2% to RMB5.0 billion for the six months ended June 30, 2006 compared to RMB3.3 billion for the six months ended June 30, 2005, due to an increase of 27.8% in the average balance and an increase in the average cost to 1.52% for the six months ended June 30, 2006 compared to 1.29% for the six months ended June 30, 2005.

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

	For the Six Months Ended June 30,					
	2005			2006		
	Average Balance	Interest Expense	Average Cost[(1)]	Average Balance	Interest Expense	Average Cost[(1)]
	(unaudited) (in millions of RMB, except percentages)					
Corporate deposits[(2)]						
Demand	189,427	787	0.84%	221,051	995	0.91%
Time	118,031	1,281	2.19	160,091	1,953	2.46
Subtotal	307,458	2,068	1.36	381,142	2,948	1.56
Retail deposits						
Demand	101,065	330	0.66	123,863	453	0.74
Time	105,740	885	1.69	152,441	1,562	2.07
Subtotal	206,805	1,215	1.18	276,304	2,015	1.47
Total deposits from customers	514,263	3,283	1.29%	657,446	4,963	1.52%

(1) Calculated on an annualized basis.
(2) Consists of deposits from corporate customers, government authorities and other organizations.

Interest expense on corporate deposits increased by 42.6% to RMB2,948 million for the six months ended June 30, 2006 compared to RMB2,068 million for the six months ended June 30, 2005, due to increases in the average balance and the average cost. Interest expense on corporate time deposits increased by 52.5% to RMB1,953 million for the six months ended June 30, 2006 compared to RMB1,281 million for the six months ended June 30, 2005. Interest expense on corporate demand deposits increased by 26.4% to RMB995 million for the six months ended June 30, 2006 compared to RMB787 million for the six months ended June 30, 2005. These increases were primarily due to an increase in the average balances of our corporate time and demand deposits, coupled with an increase in the average costs of these deposits. The increase in the average balances of our corporate time and demand deposits resulted primarily from the continued expansion of our branch network, our continued marketing efforts and the continued growth of the Chinese economy. The average cost of our corporate time deposits increased to 2.46% for the six months ended June 30, 2006 compared to 2.19% for the six months ended June 30, 2005, primarily due to a combination of (i) an increase in the market interest rates on foreign currency-denominated deposits, and (ii) the shift towards deposits with maturities of one year or longer, which bear higher interest rates than deposits with shorter terms, after the deregulation of maturities of corporate deposits in September 2005. The average cost of our corporate demand deposits increased to 0.91% for the six months ended June 30, 2006 compared to 0.84% for the six months ended June 30, 2005, primarily due to an increase in the market interest rates on foreign currency-denominated deposits.

Interest expense on retail deposits increased by 65.8% to RMB2,015 million for the six months ended June 30, 2006 compared to RMB1,215 million for the six months ended June 30, 2005, due to increases in the average balance and the average cost. Interest expense on retail time deposits increased by 76.5% to RMB1,562 million for the six months ended June 30, 2006 compared to RMB885 million for the six months ended June 30, 2005. Interest expense on retail demand deposits increased by 37.3% to RMB453 million for the six months ended June 30, 2006 compared to RMB330 million for the six months ended June 30, 2005. These increases were primarily due to an increase in the average balances of our retail time and demand deposits, coupled with an increase in the average costs of these deposits. The increase in the average balances of our retail time and demand deposits resulted primarily from the continued expansion of our branch network, our continued marketing efforts and the continued growth of the Chinese economy. The average cost of our retail time deposits increased to 2.07% for the six months ended June 30, 2006 compared to 1.69% for the six months ended June 30, 2005, primarily due to (i) an increase in the proportion of deposits with longer maturities, which bear relatively high interest rates, in our retail time deposits in the first half of 2006 compare to the first half of 2005, and (ii) an increase in interest rates on foreign currency-denominated deposits, reflecting the continued effect of the increase in the PBOC benchmark rates for foreign currency-denominated deposits since early 2005. The average cost of our retail demand deposits increased to 0.74% for the six months ended June 30, 2006 compared to 0.66% for the six months ended June 30, 2005, primarily reflecting the continued effect of the increases in the PBOC benchmark rates for foreign currency-denominated deposits since early 2005.

Interest Expense on Amounts Due to Banks and Other Financial Institutions

Interest expense on amounts due to banks and other financial institutions increased by 25.7% to RMB635 million for the six months ended June 30, 2006 compared to RMB505 million for the six months ended June 30, 2005, primarily due to an increase in the average balance, and, to a lesser extent, an increase in the average cost. The average balance increased by 21.8% to RMB52.7 billion for the six months ended June 30, 2006 compared to RMB43.3 billion for the six months ended June 30, 2005, primarily due to an increase in deposits from banks and other financial institutions, particularly deposits from securities firms, which resulted primarily from increased securities trading activities in China's stock market in the second quarter of 2006. The average cost increased to 2.43% for the six months ended June 30, 2006 compared to 2.35% for the six months ended June 30, 2005, primarily due to an increase in the market interest rates on deposits from banks and other financial institutions, particularly in the second quarter of 2006.

Interest Expense on Issued Debt

Interest expense on our total issued debt decreased by 11.6% to RMB244 million for the six months ended June 30, 2006 compared to RMB276 million for the six months ended June 30, 2005, primarily due to a decrease in the average cost, which was significantly offset by an increase in the average balance. The average cost decreased to 3.26% for the six months ended June 30, 2006 compared to 5.53% for the six months ended June 30, 2005, primarily due to a combination of (i) our issuance of fixed-term notes, which bear lower coupon rates than our other issued debt, in October 2005, and (ii) the conversion of a substantial portion of our convertible bonds, which bear higher effective interest rates than our other issued debt, into our A Shares during the second half of 2005 and the first half of 2006, which was partially offset by an increase in the interest rate on our certificates of deposit in line with the increase in the LIBOR rate. The average balance of our issued debt increased to RMB15.1 billion for the six months ended June 30, 2006 compared to RMB10.1 billion for the six months ended June 30, 2005, primarily due to our issuance of fixed-term notes in October 2005, partially offset by the conversion of our convertible bonds mentioned above.

Net Interest Spread and Net Interest Margin

Our net interest spread decreased to 2.53% for the six months ended June 30, 2006 compared to 2.72% for the six months ended June 30, 2005 because the average yield on our interest-earning assets decreased to 4.15% for the six months ended June 30, 2006 compared to 4.16% for the six months ended June 30, 2005 and the average cost on our interest-bearing liabilities increased to 1.62% for the six months ended June 30, 2006 compared to 1.44% for the six months ended June 30, 2005.

Our net interest margin decreased to 2.56% for the six months ended June 30, 2006 compared to 2.75% for the six months ended June 30, 2005 because our net interest income increased at a lower rate (19.3%) than the average balance of our interest-earning assets (27.9%) for the six months ended June 30, 2006 compared to the six months ended June 30, 2005.

Net Fee and Commission Income

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

	For the Six Months Ended June 30,	
	2005	2006
	(unaudited)	
	(in millions of RMB)	
Fee and commission income		
Bank card fees	227	422
Remittance and settlement fees[(1)]	188	280
Agency services fees	93	268
Commissions from credit commitment and loan business	76	132
Trust services fees	45	78
Others[(2)]	69	142
Subtotal	698	1,322
Fee and commission expenses	(100)	(198)
Net fee and commission income	598	1,124

(1) Consists primarily of settlement and remittance fees from corporate and retail customers and management fees on accounts with small balances.

(2) Consists primarily of fees from wealth management services, certification fees, commissions on derivative products (including interest rate and foreign exchange options and swaps) and fees from safe deposit box services.

Our net fee and commission income increased by 88.0% to RMB1,124 million for the six months ended June 30, 2006 compared to RMB598 million for the six months ended June 30, 2005, primarily due to a combination of increases in all categories of our fee and commission income, particularly bank card fees, agency services fees and remittance and settlement fees, partially offset by an increase in our fee and commission expenses.

Bank card fee income increased by 85.9% to RMB422 million for the six months ended June 30, 2006 compared to RMB227 million for the six months ended June 30, 2005, primarily due to an increase of commissions from merchants as a result of increased transaction volumes in our bank cards, particularly credit cards, and, to a lesser extent, increases in value-added service fees and annual fees on credit cards, resulting primarily from the growth in the number of our credit card customers.

Agency services fees increased by 188.2% to RMB268 million for the six months ended June 30, 2006 compared to RMB93 million for the six months ended June 30, 2005. This increase was due to a combination of increases in all categories of agency services fees, particularly fees from agency services on equity securities, which resulted from increased volumes of securities trading by our customers, primarily during the second quarter of 2006, when China's stock market showed signs of recovery from its slump of earlier years. However, pursuant to a notice issued by the CSRC in May 2006, which imposed certain restrictions on the provision of securities agency services, we have stopped taking new customers of our agency services with respect to equity securities and may be required to discontinue providing the services as we currently conduct, which may have a negative impact on our income from such services. Another important component of the increase in agency services fees for the six months ended June 30, 2006 compared to the six months ended June 30, 2005 was fees from underwriting commercial paper for corporate entities, a service we first began to provide in May 2005 following the introduction of this product in the PRC. Agency services fees from the distribution of insurance products also increased, primarily reflecting our marketing efforts.

Remittance and settlement fees increased by 48.9% to RMB280 million for the six months ended June 30, 2006 compared to RMB188 million for the six months ended June 30, 2005, primarily due to a combination of (i) our starting to charge management fees to our retail customers on accounts with small balances in July 2005, and (ii) an increase in the volume of remittance and settlement transactions.

Commissions from the credit commitment and loan business increased by 73.7% to RMB132 million for the six months ended June 30, 2006 compared to RMB76 million for the six months ended June 30, 2005, primarily due to increased transaction volumes attributable to our increased marketing efforts for this business and the continued growth of our corporate customer base.

Trust services fee income increased by 73.3% to RMB78 million for the six months ended June 30, 2006 from RMB45 million for the six months ended June 30, 2005, primarily due to the continued increases in the transaction volumes of fund products and the volume of assets under custody.

Other fees increased by 105.8% to RMB142 million for the six months ended June 30, 2006 compared to RMB69 million for the six months ended June 30, 2005, primarily due to a combination of (i) an increase in payment processing fees for trust funds resulting from increased transaction volumes, (ii) an increase in fees from financial advisory services and wealth management services, reflecting the continued increase in customer demand, and (iii) an increase in commission income on financial derivative products, particularly interest rate swaps, due to increased transaction volumes resulting from our customers' increased demand.

Our fee and commission expenses increased by 98.0% to RMB198 million for the six months ended June 30, 2006 compared to RMB100 million for the six months ended June 30, 2005, primarily due to a combination of (i) an increase in fees paid to VISA and MasterCard as a result of increased volumes of credit card transactions, (ii) an increase in transaction fees we paid to other banks for transactions conducted by our bank card customers through other banks' ATMs, and (iii) an increase in the commission expenses on financial derivative products, particularly interest rate swaps, due to increased transaction volumes resulting from our customers' increased demand.

Other Net Income

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

	For the Six Months Ended June 30,	
	2005	2006
	(unaudited)	
	(in millions of RMB)	
Net gain arising from foreign currency dealings	224	280
Net gain on financial instruments at fair value through profit or loss	141	104
Net gain/(loss) on disposal of available-for-sale financial assets	2	(26)
Net loss on disposal of fixed assets	(1)	—
Rental income	31	26
Others[(1)]	7	5
Total other net income	404	389

(1) Consists primarily of dividend income and CMBI's other net income.

Other net income decreased by 3.7% to RMB389 million for the six months ended June 30, 2006 compared to RMB404 million for the six months ended June 30, 2005, primarily due to a decrease in net gain on financial instruments at fair value through profit or loss and a net loss on the disposal of available-for-sale financial assets, partially offset by an increase in net gain arising from foreign currency dealings.

Net gain on financial instruments at fair value through profit or loss decreased by 26.2% to RMB104 million for the six months ended June 30, 2006 compared to RMB141 million for the six months ended June 30, 2005, primarily due to a decrease in the fair value of these financial instruments in the first half of 2006.

We incurred a net loss of RMB26 million on the disposal of available-for-sale financial assets for the six months ended June 30, 2006 compared to a net gain of RMB2 million for the six months ended June 30, 2005, primarily attributable to our disposal of certain available-for-sale financial assets whose fair value decreased from prior years.

Net gain arising from foreign currency dealings increased by 25.0% to RMB280 million for the six months ended June 30, 2006 compared to RMB224 million for the six months ended June 30, 2005, primarily attributable to the increase in volumes of our foreign exchange transactions with our corporate and retail customers resulting from the continued growth in our customer base and the continued increase in their demand.

Operating Expenses

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

	For the Six Months Ended June 30,	
	2005	2006
	(unaudited)	
	(in millions of RMB)	
Staff costs	2,014	2,290
Business tax and surcharges	550	700
Depreciation	410	439
Rental expenses	325	391
Other general and administrative expenses[(1)]	864	1,028
Total amount of expenses	4,163	4,848

(1) Consists primarily of promotion expenses, transportation expenses, communication and office expenses, travel expenses, utility expenses, legal expenses, audit fees and other expenses.

Our operating expenses increased by 16.5% to RMB4,848 million for the six months ended June 30, 2006 compared to RMB4,163 million for the six months ended June 30, 2005 due to an increase in all categories of operating expenses, but particularly as a result of increases in staff costs, other general and administrative expenses, and business tax and surcharges. Our ratio of operating expenses (excluding business tax and surcharges) to operating income, which we refer to as our cost-to-income ratio, decreased to 37.91% for the six months ended June 30, 2006 compared to 40.58% for the six months ended June 30, 2005.

Staff costs increased by 13.7% to RMB2,290 million for the six months ended June 30, 2006 compared to RMB2,014 million for the six months ended June 30, 2005. This increase was due to increases in all categories of staff costs, particularly increases in other staff costs and salaries, bonuses and staff welfare, resulting from the increased number of our employees to 20,953 at June 30, 2006 from 18,652 at June 30, 2005.

Business tax and surcharges increased by 27.3% to RMB700 million for the six months ended June 30, 2006 compared to RMB550 million for the six months ended June 30, 2005, due to an increase in our revenues subject to these taxes.

Other general and administrative expenses increased by 19.0% to RMB1,028 million for the six months ended June 30, 2006 compared to RMB864 million for the six months ended June 30, 2005, resulting from the continued increase in our expenses for business development and other general and administrative purposes, which reflected our business growth.

Provisions for Impairment Losses

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

	For the Six Months Ended June 30,	
	2005	2006
	(unaudited)	
	(in millions of RMB)	
Provisions for loan impairment	1,468	1,602
Provisions/(releases) for impairment losses on deposits and placements with banks and other financial institutions	127	(66)
Provisions for impairment losses on other assets[(1)]	—	162
Total	1,595	1,698

(1) Consists primarily of provisions for impairment on repossessed assets.

Provisions for impairment losses increased by 6.5% to RMB1,698 million for the six months ended June 30, 2006 compared to RMB1,595 million for the six months ended June 30, 2005, primarily due to increases in provisions for impairment on other assets and provisions for loan impairment, partially offset by releases for impairment on deposits and placements with banks and other financial institutions.

Provisions for impairment losses on other assets increased to RMB162 million for the six months ended June 30, 2006 compared to a negligible amount for the six months ended June 30, 2005. This increase reflected an increase in provisions for impairment on repossessed assets in the second quarter of 2006, which resulted primarily from lower estimated realizable values of certain real properties in our repossessed assets due to a change in our evaluation of the market conditions for disposal of these real properties.

Provisions for impairment losses on loans to customers increased by 9.1% to RMB1,602 million for the six months ended June 30, 2006 compared to RMB1,468 million for the six months ended June 30, 2005. For details on changes in our allowance for loan losses, including provisions for impairment losses, see "Assets and Liabilities — Selected, Unaudited Assets and Liabilities Information at June 30, 2006 — Assets — Allowance for Impairment Losses on Loans to Customers."

We recorded releases of RMB66 million for impairment losses on deposits and placements with banks and other financial institutions for the six months ended June 30, 2006 compared to provisions of RMB127 million for the six months ended June 30, 2005, primarily due to the continued decrease in the historical loss ratio used to assess our inter-bank deposits and placements for impairment, partially offset by an increase in the balance of our deposits and placements with banks and other financial institutions at June 30, 2006 compared to June 30, 2005.

Profit Before Tax

As a result of the foregoing factors, our profit before tax increased by 39.7% to RMB4,395 million for the six months ended June 30, 2006 compared to RMB3,145 million for the six months ended June 30, 2005.

Income Tax

Our income tax expense increased by 33.1% to RMB1,618 million for the six months ended June 30, 2006 compared to RMB1,216 million for the six months ended June 30, 2005, primarily due to an increase in our profit before tax. Our effective tax rate for the six months ended June 30, 2006 was 36.8% compared to 38.7% for the six months ended June 30, 2005.

Net Profit

As a result of all the foregoing factors, our net profit increased by 44.0% to RMB2,777 million for the six months ended June 30, 2006 compared to RMB1,929 million for the six months ended June 30, 2005.

Summary Segment Operating Results for the Six Months Ended June 30, 2006 and 2005

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

Summary Business Segment Information

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

	For the Six Months Ended June 30,					
	2005			2006		
	Corporate Banking	Retail Banking	Treasury Business	Corporate Banking	Retail Banking	Treasury Business
	(unaudited) (in millions of RMB)					
External net interest income[1]	5,814	372	1,715	6,367	235	2,826
Internal net interest (expense)/income[2]	(324)	1,817	(1,493)	(82)	1,893	(1,811)
Net interest income	5,490	2,189	222	6,285	2,128	1,015
Net fee and commission income	281	269	7	436	641	(4)
Other net income	175	51	137	229	73	83
Operating income	5,946	2,509	366	6,950	2,842	1,094
Operating expenses	(2,277)	(1,649)	(235)	(2,560)	(1,964)	(322)
Provision for impairment losses	(1,244)	(224)	(127)	(1,517)	(247)	66
Total expenses	(3,521)	(1,873)	(362)	(4,077)	(2,211)	(256)
Profit before tax	2,425	636	4	2,873	631	838

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

Summary Geographical Segment Information

The following table sets forth, for the periods indicated, the total operating income, representing the total operating income before interest expense and fee and commission expense, attributable to each of the geographical regions where we operate.

	For the Six Months Ended June 30,			
	2005		2006	
	Amount	% of Total	Amount	% of Total
	(unaudited)			
	(in millions of RMB, except percentages)			
Eastern China	4,372	33.4%	5,466	32.2%
Southern and Central China(1)	4,478	34.3	7,156	42.2
Northern China	2,639	20.2	2,667	15.7
Western China	1,477	11.3	1,482	8.7
Others(2)	101	0.8	210	1.2
Total operating income	13,067	100.0%	16,981	100.0%

(1) Includes our head office.
(2) Represents our Hong Kong branch and CMBI.

Capital Resources at June 30, 2006

Shareholders' Equity

Our total shareholders' equity increased to RMB32.7 billion at June 30, 2006 from RMB26.0 billion at December 31, 2005, primarily due to an increase of RMB5,247 million resulting from the conversion of our convertible bonds into approximately 935 million A Shares and the recognition of RMB2,777 million of net profit for the six months ended June 30, 2006, partially offset by the payment of dividends in an aggregate amount of RMB983 million and a RMB289 million decrease in the fair value of available-for-sale financial assets.

Capital Adequacy

Our capital adequacy ratio and core capital adequacy ratio were 8.36% and 6.44%, respectively, at June 30, 2006, and our regulatory capital amounted to RMB41.2 billion at the same date.

Off-Balance Sheet Commitments

The following table sets forth the contractual amounts of our off-balance sheet commitments at June 30, 2006.

	At June 30, 2006
	(unaudited)
	(in millions of RMB)
Irrevocable guarantees	37,068
Irrevocable credit	25,782
Bills of acceptance	164,180
Loan commitments	4,627
Credit card commitments	23,663
Shipping guarantees	20
Total off-balance sheet commitments	255,340

Contractual Obligations

The following table sets forth our known contractual obligations by remaining contract maturity classified into the categories specified below at June 30, 2006.

	At June 30, 2006			
	Less than 1 Year	Between 1 and 5 Years	More than 5 Years	Total
	(unaudited) (in millions of RMB)			
On-balance sheet:				
Certificates of deposit issued	1,199	—	—	1,199
Convertible bonds issued(1)	—	44	—	44
Subordinated notes issued	—	3,500	—	3,500
Fixed-term notes(2)	—	10,000	—	10,000
Off-balance sheet:				
Capital commitments authorized and contracted for	240	—	—	240
Operating lease commitments	639	1,544	448	2,631
Redemption obligations(3)	3,999	10,503	—	14,502
Total	6,077	25,591	448	32,116

(1) The carrying value of our outstanding convertible bonds was RMB39 million at June 30, 2006.
(2) The carrying value of our fixed-term notes was RMB9,985 million at June 30, 2006.
(3) Represents the face value of PRC government bonds underwritten and sold by us which had not yet matured at June 30, 2006.

QUANTITATIVE AND QUALITATIVE ANALYSIS OF MARKET RISK

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

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 to assess our exposure to interest rate risk. In addition, different pricing bases for different products 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.

Maturity Gap Analysis

The following table sets forth, at March 31, 2006, 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 assets and liabilities.

	At March 31, 2006						
	Effective Interest Rate[1]	3 Months or Less (include Overdue)	Over 3 Months to 1 Year	Over 1 Year to 5 Years	More than 5 Years	Non-Interest-Bearing	Total
	(in millions of RMB, except percentages)						
Assets							
Cash and balances with central bank	1.61%	54,850	—	—	—	3,712	58,562
Amounts due from banks and other financial institutions	2.59%	53,497	4,786	183	—	—	58,466
Loans to customers, net	4.77%	256,191[2]	240,735	3,394	272	—	500,592
Investment securities and other financial assets[3]	2.99%	39,283	48,840	39,335	7,035	157	134,650
Other assets	—	—	—	—	—	14,410	14,410
Total assets		403,821	294,361	42,912	7,307	18,279	766,680
Liabilities							
Amounts due to banks and other financial institutions	2.42%	37,537	183	160	—	—	37,880
Deposits from customers	1.53%	503,849	141,681	21,711	30	—	667,271
Financial liabilities at fair value through profit or loss	—	—	—	—	—	116	116
Certificates of deposit issued	4.88%	1,202	—	—	—	—	1,202
Convertible bonds issued	6.39%	—	—	42	—	—	42
Fixed-term notes issued	2.34%	—	—	9,983	—	—	9,983
Subordinated notes issued	4.74%	—	—	3,500	—	—	3,500
Other liabilities	—	—	—	—	—	14,065	14,065
Total liabilities		542,588	141,864	35,396	30	14,181	734,059
Re-pricing gap		(138,767)	152,497	7,516	7,277	4,098	32,621
Cumulative re-pricing gap		(138,767)	13,730	21,246	28,523	32,621	

(1) The effective interest rate represents the ratio of interest income/expense to the daily average balance of the corresponding interest-earning assets or interest-bearing liabilities.

(2) Includes overdue loans (net of allowances for impairment losses) of RMB4,114 million. Overdue net loans are net loans on which principal is overdue. Loans on which interest but not principal is overdue are not included. For loans that are repayable in installments, only the portion of the loans that is overdue is shown as overdue, and the installments that are not yet due are included under the corresponding remaining maturities.

(3) The remaining maturities of investment securities and other financial assets are the remaining contract maturities of such securities and assets and do not necessarily represent our intentions with respect to such securities and assets.

Sensitivity Analysis

We use sensitivity analysis to measure the potential effect of changes in interest rates on our net interest income. The following table sets forth, at March 31, 2006, the results of our interest rate sensitivity analysis based on our assets and liabilities at the same date.

	At March 31, 2006			
	Change in Interest Rates (in basis points)			
	(100)(1)	(50)(2)	50(2)	100(1)
Change in annualized net interest income (in millions of RMB)	642	321	(321)	(642)

(1) Interest rates for certain products are below 1%. This is for reference only.
(2) Interest rates for certain products are below 0.5%. This is for reference only.

Based on our assets and liabilities at March 31, 2006, if interest rates increase (or decrease) by 100 basis points instantaneously, our net interest income for the year following March 31, 2006 would decrease (or increase) by RMB642 million; if interest rates increase (or decrease) by 50 basis points instantaneously, our net interest income for the year following March 31, 2006 would decrease (or increase) by RMB321 million.

This sensitivity analysis, which is based on a static interest rate risk profile of assets and liabilities, is used for risk management purposes only. The analysis measures only the impact of changes in the interest rates within a year, as reflected by the repricing of our assets and liabilities within a year, on our annualized interest income, and is based on the following assumptions: (i) all assets and liabilities that reprice or are due within three months and in more than three months but within one year, as shown in the table under "— Maturity 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.

Duration Analysis

Interest rate risk also arises from our investment securities and other financial assets. Changes in the prevailing level of interest rates may affect the value of debt securities. We primarily use duration analysis to measure and manage interest rate risk associated with our RMB- and U.S. dollar-denominated debt securities, which constitute substantially all of the debt securities in our investment securities and other financial assets portfolio. Duration analysis is intended to show the approximate percentage change in value of an asset or liability resulting from a 100 basis point change in interest rates. At March 31, 2006, the weighted average duration expressed in terms of sensitivity of the economic value of our RMB-denominated and U.S. dollar-denominated debt securities to interest rate changes was 1.29 and 1.68, respectively. Therefore, for a 100 basis point increase in interest rates, the economic value of our RMB-denominated debt securities would decrease by 1.29%, which would amount to RMB1,428 million at March 31, 2006, and the economic value of our U.S. dollar-denominated debt securities would decrease by 1.68%, which would amount to an equivalent of RMB255 million at the same date. For the purpose of calculating duration, economic value represents the present value of future cash flows, which is calculated by discounting future cash flows on debt securities at the prevailing market yield curve.

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

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

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 March 31, 2006, our assets and liabilities by currency.

	At March 31, 2006			
	RMB	US$	Others	Total
	(in millions of RMB equivalent)			
Assets				
Cash and balances with central bank	56,046	1,695	821	58,562
Amounts due from banks and other financial institutions	30,409	14,068	13,989	58,466
Loans to customers, net	473,184	23,480	3,928	500,592
Investment securities and other financial assets	112,747	18,540	3,363	134,650
Other assets	13,587	226	597	14,410
	685,973	58,009	22,698	766,680
Liabilities				
Amounts due to banks and other financial institutions	33,442	3,857	581	37,880
Deposits from customers	599,047	46,767	21,457	667,271
Financial liabilities at fair value through profit or loss	18	58	40	116
Certificates of deposit issued	—	1,202	—	1,202
Convertible bonds issued	42	—	—	42
Fixed-term notes issued	9,983	—	—	9,983
Subordinated notes issued	3,500	—	—	3,500
Other liabilities	10,454	2,863	748	14,065
	656,486	54,747	22,826	734,059
Net on-balance sheet position	29,487	3,262	(128)	32,621
Off-balance sheet position				
Credit commitments(1)	118,038	25,232	7,065	150,335
Derivatives(2)	6,927	2,333	(2,284)	6,976

(1) Credit commitments generally expire before they are used; therefore, the above net positions (after deduction of pledged deposits) do not represent our cash flow needs.

(2) Represents financial derivative products we have purchased to generally hedge the interest rate risk and foreign exchange risk primarily arising from our transactions with customers. For these financial derivatives, our open positions are offset by our similar positions with other financial institutions.

We use financial derivatives to generally hedge our interest rate risk and foreign exchange risk, including such risks arising from our transactions with customers. Financial derivatives are off-balance sheet financial instruments, including spot and forward foreign currency contracts, foreign currency swaps and options, and interest rate swaps. Interest rate swaps are agreements between us and a counterparty where one stream of future interest payments is exchanged for another based on a specified principal amount. Spot exchange transactions are transactions in which currencies are bought or sold and delivered immediately and transactions in futures contracts expiring in the current month. Forward exchange transactions are purchases or sales of foreign currencies at an exchange rate established at the date of transaction but with payment and delivery at a specified future time. Foreign exchange 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 currencies in exchange for an agreed amount. These derivative transactions do not qualify as hedging instruments under IAS 39. See Note 2(d) to the Accountants' Report in Appendix I to this prospectus.

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

	At December 31,									At March 31,		
	2003			2004			2005			2006		
	Nominal Amount	Fair Value Assets	Fair Value Liabilities	Nominal Amount	Fair Value Assets	Fair Value Liabilities	Nominal Amount	Fair Value Assets	Fair Value Liabilities	Nominal Amount	Fair Value Assets	Fair Value Liabilities
	(in millions of RMB)											
Interest rate derivatives												
Interest rate swaps	328	2	(11)	7,392	42	(51)	10,422	39	(51)	12,717	40	(61)
Currency derivatives												
Spot	1,549	2	(4)	1,917	4	(3)	2,826	1	(1)	861	1	(1)
Forwards	777	29	(25)	389	9	(9)	3,845	39	(34)	5,220	36	(54)
Foreign exchange swaps	3,733	30	(12)	2,001	11	(12)	1,070	7	—	895	1	—
Currency option written	756	15	(23)	248	—	—	—	—	—	—	—	—
Subtotal	6,815	76	(64)	4,555	24	(24)	7,741	47	(35)	6,976	38	(55)
Total	7,143	78	(75)	11,947	66	(75)	18,163	86	(86)	19,693	78	(116)

CAPITAL EXPENDITURES

Our capital expenditures from 2003 through March 31, 2006 were primarily made to purchase and construct fixed assets, including electronic equipment, motor vehicles and real property.

Our capital expenditures were RMB177 million for the three months ended March 31, 2006, primarily representing our expenses for construction of real property, improvements of leased property and purchases of computer equipment. In 2005, our capital expenditures totaled RMB1.3 billion, a decrease of 37.3% compared to RMB2.0 billion in 2004 primarily as a result of of a decrease in our construction and purchase of real property and purchase of electronic equipment and motor vehicles. Our capital expenditures increased by 168.7% to RMB2.0 billion in 2004 compared to RMB745 million in 2003 primarily due to a significant increase in our construction and purchase of real property to increase our office space and increases in our purchase of electronic equipment and motor vehicles, all in line with the expansion of our business. At March 31, 2006, we had authorized and contracted for capital commitments in an aggregate amount of RMB324 million, primarily for the construction of real property.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

In determining the carrying amounts of some assets and liabilities, we make assumptions of the effects for uncertain future events on those assets and liabilities at the balance sheet date. These estimates involve assumptions about such items as cash flows and discount rates used. Our estimates and assumptions are based on historical experience and expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgments are also made during the process of applying our accounting policies.

Impairment Losses on Loans and Advances

Loan portfolios are assessed periodically to evaluate whether impairment losses exist and if they exist, the amounts of impairment losses. Loans and advances which are considered individually significant, 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 allowances 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.

Impairment of Available-for-sale Financial Assets

For available-for-sale financial assets, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. Judgment is required when determining whether a decline in fair value has been significant or prolonged. In making this judgment, the historical data on market volatility as well as in the share price of the specific equity investment are taken into account. We also takes into account other factors, such as industry and sector performance and financial information regarding the investee.

Fair Value of Financial Instruments

For a number of financial instruments, no quoted prices in an active market exist. The fair values for these financial instruments are established by using valuation techniques. These techniques include using recent arm's length market transactions, reference to the current fair value of similar instruments and discounted cash flow analysis and option pricing models. We have established a process to ensure that valuation techniques are constructed by qualified personnel and are validated and reviewed by personnel independent of the area that constructed the valuation techniques. Valuation techniques are certified before being implemented for valuation and are calibrated to ensure that outputs reflect actual market conditions. Valuation models established by us make the maximum use of market inputs and rely as little as possible on the data specific to us. However, it should be noted that some inputs, such as credit and counterparty risk and risk correlations, require management estimates. Management estimates and assumptions are reviewed periodically and are adjusted if necessary.

Held-to-maturity Investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity investments if we have the intention and ability to hold them until maturity. In evaluating whether the requirements to classify a financial asset as held-to-maturity are met, management make significant judgments. Failure in correctly assessing our intention and ability to hold specific investments until maturity may result in reclassification of the whole portfolio as available-for-sale.

Income Taxes

Determining income tax provisions involves judgment on the future tax treatment of certain transactions. We carefully evaluate tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognized for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognized to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised. Management's judgment is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognized if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

RECENT ACCOUNTING PRONOUNCEMENTS

Up to the date of this prospectus, the IASB has issued the following amendments, new standards and interpretations which are not yet effective for the accounting periods ended March 31, 2006 and which have not been adopted in the presentation of our financial information:

		Effective for Accounting Periods Beginning on or After
IFRS 7	Financial Instruments: Disclosures	January 1, 2007
Amendment to IAS 1	Presentation of Financial Statements: Capital Disclosures	January 1, 2007

IFRS 7 was issued in August 2005 and will be effective for the period beginning on January 1, 2007. IFRS 7 requires more detailed qualitative and quantitative disclosure primarily on fair value information and risk management. We have assessed the impact of IFRS 7 and concluded that IFRS 7 would only affect the level of details in the disclosure of, and would not have an impact on, our results of operations or the state of affairs.

Amendment to IAS 1 was issued in August 2005 and will be effective for the period beginning on January 1, 2007. Amendment to IAS 1 is not applicable to any of our operations and is unlikely to have a significant impact on our result of operations or financial condition.

RELATED PARTY DISCLOSURES UNDER IAS 24

In the ordinary course of business, we conduct banking and other transactions with entities directly or indirectly owned by the PRC government through its government ministries, departments, agencies, authorities, affiliates and other organizations ("state-owned entities"). Our policy is to conduct such transactions on terms and conditions substantially similar to transactions with non-state-owned entities. According to International Accounting Standard 24 — "Related Party Disclosures"

("IAS 24"), a party is related to an entity if, among other things, the party, directly or indirectly through one or more intermediaries, (1) controls, is controlled by, or is under common control with, the entity; (2) has an interest in the entity that gives it significant influence over the entity; or (3) has joint control over the entity. IAS 24.9 defines "control" as "the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities." Accordingly, the directors are of the view that (a) we and state-owned entities are not in substance under common control and therefore are not related parties according to IAS 24 and (b) our transactions with other state-owned entities are not material related party transactions that require separate disclosure in our financial statements according to IAS 24.

We base our analysis on the following. IAS 24 provides that the determination of whether a related party relationship exists should focus on "the substance of the relationship and not merely the legal form." The directors are of the view that the facts do not support the conclusion that we are a related party of state-owned entities under IAS 24 merely because more than 50% of our shares are held by state-owned shareholders. Although we and other state-owned entities have shareholders that are related to the PRC government, each entity has its own board of directors (if applicable) and management team which make decisions on operating, financial and other matters. We note that a substantial portion of our shares is widely held due to the fact that we have been listed on the SHSE since April 2002. At August 15, 2006, 38.33% of our shares were widely held by public investors. The remaining 61.67% were held by 90 shareholders, including 71 state-owned shareholders which together held approximately 56% of our shares. As far as we are aware, these 71 state-owned shareholders historically have acted independently in voting on resolutions at shareholders' general meetings. Further, our operating and financial policies are determined by our Board of Directors, which is comprised of 17 directors, six of whom are independent non-executive directors. As far as we are aware, directors representing our state-owned shareholders historically have not acted in concert. Finally, we have a risk management and internal control system that seeks to ensure that material business transactions are conducted based on commercial principles. Our policy is to conduct banking and other transactions with state-owned entities on terms and conditions substantially similar to transactions with non-state-owned entities.

INDEBTEDNESS

At July 31, 2006, we had the following indebtedness:

(a) RMB3.5 billion of subordinated notes, which will become due between April 2009 and July 2009;

(b) 5-year convertible bond with a nominal value of RMB42 million issued on November 10, 2004;

(c) three-year fixed-term notes with nominal value of RMB5 billion and five-year fixed term note with nominal value of RMB5 billion which were issued in October 2005;

(d) certificates of deposit with an aggregate nominal value of US$150 million and a maturity of three years issued in June 2004;

(e) 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

(f) direct credit substitutes, transaction-related contingencies, trade-related contingencies and other commitments that arose from the normal course of banking business carried out by us.

Except as disclosed above, we did not have, at July 31, 2006, any outstanding mortgages, charges, debentures, or other loan capital (issued or agreed to be issued), bank overdrafts, loans, liabilities under acceptance or other similar indebtedness, hire purchase and finance lease commitments or any guarantees or other material contingent liabilities.

Our directors have confirmed that there has not been any material change in the indebtedness or contingent liabilities of our company since July 31, 2006.

PROPERTY INTERESTS AND VALUATION OF PROPERTIES

For the purpose of the listing of our shares on the Hong Kong Stock Exchange, our properties were revalued at RMB5,889,836,000 at June 30, 2006 by Sallmanns (Far East) Limited. Details of the valuation are summarised in Appendix VI to this prospectus. In accordance with our accounting policy, all properties are stated at cost less accumulated depreciation. At March 31, 2006, the net book value of our properties comprising land and building, investment properties and construction in progress amounted to RMB4,702 million as set out in the Accountants' Report included in Appendix I and at June 30, 2006, the net book value of our properties amounted to RMB4,724 million. Any net revaluation surplus arising from the valuation of properties has not been included in the unaudited pro forma adjusted net tangible assets statement under the section headed "Financial Information — Unaudited Pro Forma Adjusted Consolidated Net Tangible Assets" in this prospectus.

RULES 13.13 TO 13.19 OF THE HONG KONG LISTING RULES

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

PROFIT FORECAST FOR THE YEAR ENDING DECEMBER 31, 2006(1)

All statistics in this table are based on the assumption that the Over-allotment Option is not exercised.

Forecast consolidated net profit attributable to shareholders(1)	not less than RMB5.5 billion
Forecast earnings per share	
(a) pro forma fully diluted(2)	RMB0.38 (HK$0.37)
(b) weighted average(3)	RMB0.42 (HK$0.41)

(1) The bases and assumptions on which the profit forecast 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 fully diluted basis is based on the forecast consolidated net profit attributable to our shareholders for the year ending December 31, 2006 assuming that we had been listed on The Stock Exchange of Hong Kong Limited since January 1, 2006 and all our convertible bonds outstanding as of January 1, 2006 were fully converted on that day; resulting in a total of 14,487,508,904 shares issued and outstanding during the entire year. This calculation assumes that the 2,200,000,000 H Shares to be issued pursuant to the Global Offering were issued on January 1, 2006. The forecast consolidated net profit attributable to shareholders for the year ending December 31, 2006 is based on the audited consolidated financial statements for the three months ended March 31, 2006, the unaudited results for the three months ended June 30, 2006 and a forecast of the consolidated results for the remaining six months ending December 31, 2006.

(3) The calculation of the forecast earnings per share on a weighted average basis is based on the forecast consolidated net profit attributable to our shareholders for the year ending December 31, 2006 and a weighted average number of 13,013,433,849 shares in issue during the year. In determining the weighted average number of outstanding shares in 2006, we have assumed that no convertible bonds were converted subsequent to August 15, 2006 and have calculated the average of (i) the actual number of shares outstanding at the end of each month from January to July and (ii) the assumed number of shares outstanding at the end of each month from August to December which is equal to the actual number of shares outstanding at August 15, 2006, as adjusted for, in the case of the months of September to December, the issuance of 2,200,000,000 H Shares pursuant to the Global Offering.

DIVIDEND POLICY

Our Board of Directors is responsible for submitting proposals in respect of dividend payments, if any, to the shareholders' general meeting for approval. The determination of whether to pay a dividend and in what amount is based on our results of operations, cash flow, financial condition, capital adequacy ratios, future business prospects, statutory and regulatory restrictions on the payment of dividends by us and other factors that our Board of Directors deems 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. We generally pay dividends out of our distributable profit, which is our net profit as determined under PRC GAAP or IFRS, whichever is lower, less:

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

According to recent MOF regulations, in principle, we are required to maintain a regulatory general reserve at 1% of the balance of our risk-bearing assets prior to making a profit distribution. This regulatory general reserve constitutes part of our reserves. Financial institutions that did not meet this regulatory general reserve requirement at July 1, 2005 are required to take necessary steps to meet this requirement in approximately three years, but not later than five years, from July 1, 2005. At December 31, 2005, 1% of the balance of our risk-bearing assets totaled RMB6.7 billion, and we set aside RMB3.0 billion as regulatory general reserve. We plan to set aside an additional amount in each of 2006 and 2007 as regulatory general reserve, with the goal of meeting this requirement by December 31, 2007, within the grace period provided for by the MOF regulations. See Note 33 to the Accountants' Report in Appendix I to this prospectus.

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

The CBRC has the discretionary authority to prohibit any bank that has a capital adequacy ratio below 8% or a core capital adequacy ratio below 4%, or has violated certain other PRC banking regulations, from paying dividends and making other forms of distributions. See "Regulation and Supervision — PRC Regulation and Supervision — Supervision Over Capital Adequacy — CBRC Supervision of Capital Adequacy" and "Regulation and Supervision — PRC Regulation and Supervision — Principal Regulators — CBRC." At June 30, 2006, we had a capital adequacy ratio of 8.36% and a core capital adequacy ratio of 6.44%.

We paid a dividend in the amount of RMB983 million, RMB753 million and RMB525 million in respect of the year ended December 31, 2005, 2004 and 2003, respectively, representing RMB0.08, RMB0.11 and RMB0.092 per share. In light of the Global Offering, our shareholders approved at an extraordinary shareholders' general meeting on August 19, 2006 the distribution of a special dividend of RMB0.18 per share to our holders of A Shares from our accumulated distributable profit at December 31, 2005. The total estimated amount of the special dividend is approximately RMB2,210 million. Following the Global Offering, our holders of H Shares and A Shares will have an equal right to the distributable profit remaining at December 31, 2005. They will also have an equal right to distributable profit in respect of the year ending December 31, 2006 and thereafter.

In August 2006, our Board of Directors proposed that in respect of each of the years ending December 31, 2006, 2007 and 2008, our dividend policy is to distribute an aggregate amount between 25% to 35% of our net profit, if any, for the respective year. The actual amount of dividend, if any, in respect of each year is subject to approval by our shareholders at the relevant shareholders' general meeting.

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 audited consolidated net tangible assets at March 31, 2006, as shown in the Accountants' Report, the text of which is set forth in Appendix I 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 audited consolidated net tangible assets at March 31, 2006 as if the Global Offering had occurred on March 31, 2006.

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.

	Audited Consolidated Net Tangible Assets at March 31, 2006	Estimated Net Proceeds from the Global Offering(1)	Unaudited Pro Forma Adjusted Consolidated Net Tangible Assets(2)	Unaudited Pro Forma Adjusted Consolidated Net Tangible Asset Value per Share(3)	
	(in millions of RMB)			(RMB)	(HK$)(4)
Based on the offer price of HK$7.30 per Offer Share(5)	32,621	15,911	48,532	3.35	3.26
Based on the offer price of HK$8.55 per Offer Share(5)	32,621	18,659	51,280	3.54	3.44

(1) The estimated net proceeds from the Global Offering are based on the offer price of HK$7.30, or RMB7.51, per share to HK$8.55, or RMB8.80, 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.

(2) The unaudited pro forma adjusted net tangible assets do not take into account the effect of the net profit for the period from and including April 1, 2006 to the date immediately preceding the date of the Global Offering.

(3) The unaudited pro forma adjusted consolidated net tangible asset value per share is arrived at after the adjustments referred to in note 1 above and on the basis that 2,200,000,000 H shares are issued and outstanding and that the Over-allotment Option is not exercised. If the over-allotment option is exercised, the unaudited pro forma adjusted consolidated net tangible asset value per share will increase.

(4) The translation of Renminbi into Hong Kong dollars has been made at the rate of RMB1.0294 to HK$1.00, the exchange rate set by the PBOC prevailing at June 30, 2006. 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.

(5) An annual dividend of RMB983 million for the year ended December 31, 2005 was distributed in June 2006, and a special dividend of RMB2,210 million from our accumulated distributable profit at December 31, 2005 was declared at our extraordinary shareholders' general meeting on August 19, 2006 to be paid to our A shareholders. Had it been permissible to include these dividends in the above calculation, the unaudited pro forma adjusted consolidated net tangible asset value per share would have been reduced to HK$3.04 or RMB3.13 based on the offer price of HK$7.30 per offer share and HKD3.23 or RMB3.32 based on the offer price of HK$8.55 per offer share.

NO MATERIAL ADVERSE CHANGE

Our directors confirm that, other than as disclosed in "Assets and Liabilities — Selected, Unaudited Assets and Liabilities Information at June 30, 2006," "Financial Information — Selected, Unaudited Financial Information at and for the Six Months Ended June 30, 2006" and our special dividend approved by our shareholders as disclosed in "Financial Information — Profit Distribution," there has been no material adverse change in our financial or trading position since March 31, 2006.

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