

**OVERVIEW**

We are the largest commercial bank in China in terms of total assets, loans and deposits. At December 31, 2005, we had RMB6,456.1 billion (US\$816.8 billion) in total assets, RMB3,289.6 billion (US\$416.2 billion) in total loans, RMB5,736.9 billion (US\$725.8 billion) in total deposits, and our total operating income in 2005 was RMB171.6 billion (US\$21.7 billion). Our assets, loans and deposits represented 16.8%, 15.4% and 19.4% of the total assets, total loans and total deposits, respectively, of all banking institutions in China, and 31.4%, 30.4% and 32.6% of the total assets, total loans and total deposits, respectively, of the Big Four commercial banks at December 31, 2005, based on PRC GAAP statistical data published by the PBOC.

We primarily operate in China and provide an extensive range of commercial banking products and services. According to the PBOC, we were:

- the largest corporate bank in China in terms of outstanding corporate loans, discounted bills and corporate deposits at December 31, 2005;
- the largest personal bank in China in terms of outstanding personal loans and personal deposits at December 31, 2005; and
- the leading service provider in credit card, quasi-credit card and debit card businesses in China in terms of the aggregate transaction volume in 2005.

At June 30, 2006, we had more than 2.5 million corporate customers and more than 150 million personal customers. We serve our customers through our traditional branch network, which, at June 30, 2006, comprised 18,038 domestic branches, outlets and other establishments (including our head office), and through our electronic banking network, which, at June 30, 2006, comprised a range of Internet and telephone banking services, 1,610 self-service banking centers and 19,026 ATMs.

We are headquartered in Beijing and, at June 30, 2006, had 98 overseas branches, subsidiaries, representative offices and outlets. We currently maintain branches in Hong Kong, Macau, Singapore, Tokyo, Seoul, Busan, Frankfurt and Luxembourg and representative offices in New York, Moscow and Sydney. In addition, we have subsidiaries in Hong Kong, London and Almaty. ICBC (Asia), which is controlled by us, was the sixth largest Hong Kong-incorporated bank listed, or controlled by a company that is listed, on the Hong Kong Stock Exchange in terms of total assets at December 31, 2005.

We believe that “Industrial and Commercial Bank of China” (中國工商銀行) is one of the most recognized financial services brands in China. We were named “Bank of the Year in 2004 (China)” by *The Banker*, “Best Bank Award” for China in 2005 by *Global Finance*, “Best Bank in China” in 2004 by *EuroMoney*, “Best Domestic Commercial Bank in China” in 2004 and 2005 by *Asiamoney*, “Best Retail Bank in China” in 2004 and 2005 and “Best Retail Bank (Stated-owned) in China” in 2006 by *The Asian Banker*, “Best Consumer Internet Bank” in China in 2004, 2005 and 2006 by *Global Finance*, “Bank with Best Investment Management Services in Corporate Internet Banking” in Asia Pacific in 2006 by *Global Finance*, “Best Local Bank in China” in 2003 and 2004 by *FinanceAsia*, “Best Custodian Bank in China” in 2005 by *The Asset*, “Best Custodian Bank in China” in 2004 and 2005 by *Global Custodian*, and “Best Sub-Custodian in China” in 2004 by *Asiamoney*. We received the worldwide “Networking Initiative of the Year” award in 2006 from *The Banker*, the “Best Banking Technology Development Award” in 2004 from the PBOC, the First Prize of “China Internet Industry Survey Report for Internet Banking” in 2005 from the Internet Society of China, the “Gold Award for Customer Care and Public Service in China” in 2005 from the Ministry of Information Industry, “The

Most-Used Bank by Consumers in China” in 2003 from *AC Nielsen* and the title of “Best Finance, Economics and Securities Website in China” in 2005 from *Securities Times*.

Since 1999, we have implemented a series of reform measures that we believe have significantly transformed our business, operations and corporate culture. In particular, we have focused on developing comprehensive risk management systems and rationalizing our business structure and organization. Our business focus and structure have evolved to meet our customers’ demand for a broad range of banking products and services. We have focused on expanding our personal banking operations, particularly in high-growth fee- and commission-based segments, and we have established ourselves as a leading electronic banking service provider. Through significant investments in information technology, we have established centralized information systems designed to enable us to analyze the activities of our customer base, target attractive client segments and enhance our risk management and other internal control capabilities. We believe that, as a result of our reforms, our business structure and processes, corporate governance practices and internal controls are among the most advanced of PRC commercial banks. Our financial restructuring in 2005 has significantly strengthened our capital base, and we believe that we are currently well-positioned to pursue our next phase of growth.

## **OUR COMPETITIVE STRENGTHS**

Our principal competitive strengths include:

### ***Largest PRC Commercial Bank with a Leading Market Position in Major Business Segments***

We are the largest PRC commercial bank in terms of total loans and deposits. In addition, we have also established leading positions in numerous corporate banking, personal banking and treasury business lines. We believe that our size, leading market position and recognized brand name will enable us to continue to increase our penetration in key market segments, diversify our revenue streams and achieve attractive economies of scale. We were:

- the largest corporate bank in China in terms of outstanding domestic corporate loans (RMB2,277.4 billion), discounted bills (RMB392.7 billion) and corporate deposits (RMB2,483.7 billion) at December 31, 2005;
- the largest personal bank in China in terms of outstanding personal loans, personal mortgage loans and personal deposits at December 31, 2005;
- the leading service provider in the credit card, quasi-credit card and debit card businesses in China in terms of total transaction volume in 2005;
- the leading provider of custodian services in China in terms of the number of open-end funds and total assets under custody at December 31, 2005; and
- the leader among PRC commercial banks in physical gold bullion trading in terms of transaction volume and settlement amount in 2005.

In addition, we believe we were the leading PRC commercial bank in the following areas:

- Renminbi-denominated clearing and settlement services in terms of total revenue in 2005;
- syndicated loans in terms of outstanding balance at December 31, 2005;
- distribution of open-end funds in terms of total volume distributed in 2005;

- distribution of bearer form treasury bonds in terms of total value sold in 2005;
- corporate cash management services in terms of the number of customers at December 31, 2005; and
- personal wealth management services in terms of total sales volume in 2005.

### ***Large High-Quality Corporate and Personal Banking Customer Base***

We believe that we have the largest corporate banking customer base in China with more than 2.5 million corporate banking customers, including approximately 57,710 borrowers at June 30, 2006. We have established banking relationships with many leading business conglomerates and corporations, including 492 out of the 500 top domestic companies in terms of revenues and 238 of the *Fortune 500* companies at June 30, 2006. We are well-positioned in important industries, such as energy, transportation and telecommunications. In addition, we have maintained long-standing banking relationships with government agencies, public institutions and financial institutions. In addition to providing a stable source of funding, our large corporate banking customer base provides valuable business development opportunities as we seek to continue to expand our product and service offerings in new areas, such as corporate cash management, investment banking and other fee- and commission-based businesses.

We believe that we have the largest personal banking customer base in China with more than 150 million personal banking customers. At June 30, 2006, we had more than 50 million customers maintaining a financial asset balance in the range of RMB5,000 to RMB50,000 each with us. At the same date, we had over 16 million customers maintaining a financial asset balance of over RMB50,000 each with us. The average financial asset balance of these customers was over RMB150,000. Our large personal customer base enables us to identify and introduce attractive new product and service opportunities. We believe the demand for new fee- and commission-based products and services, such as wealth management and bank cards, should increase significantly as personal wealth grows and customer needs become more sophisticated in China.

### ***Extensive Distribution Network and Largest Electronic Banking Service Provider***

We have a nationwide presence, with 18,038 branches, outlets and other establishments (including head office) in China at June 30, 2006. We have a strong presence in the economically developed Yangtze River Delta, Pearl River Delta and Bohai Rim regions with 7,738 branches and outlets in these regions at June 30, 2006. We also operate more than 3,000 wealth management centers throughout China. Our traditional branch network is supported by a large sales force in both corporate and personal banking, which includes more than 25,000 corporate banking relationship managers and approximately 10,000 personal banking customer managers (including the largest number of associate financial planners among all PRC commercial banks) who, in cooperation with our product managers, focus on our relationships with high-quality customers. We will continue to deliver standardized and highly effective customer service through streamlining the operations of our branches and outlets.

We have an efficient and advanced electronic banking network, which includes Internet, telephone, mobile phone, ATM and self-service banking centers. We are the leading provider of electronic clearing and settlement services in terms of both the number of customers and transaction volume. Through our electronic banking network, we processed transactions that totalled RMB46,769.9 billion in value for 2005, which, we believe, made us the market leader in terms of total

electronic banking transaction volume in China during that year. In addition, our electronic banking network reduces our per transaction cost which contributes to lowering our overall cost-to-income ratio.

Our extensive distribution network provides us with a strong sales platform, which enables us to establish leading positions in new products and services, such as bearer form treasury bonds, open-end fund and bancassurance products, increase customer convenience, satisfaction and loyalty, and source new customers more effectively.

### ***Leading Information Technology Capabilities***

We believe that we have the most advanced information technology platform among PRC commercial banks. We were the first Big Four commercial bank to complete a bank-wide data consolidation project, which enables centralized real-time processing of operational data from all of our domestic branch offices. Our data consolidation project has enabled us to further develop various customer applications, accelerate the development of our electronic banking network and realize the economic benefits of our size.

We believe that we were the first Big Four commercial bank to establish a multifunctional application platform for business processing, customer information management and operational management through our proprietary core banking system—NOVA. Our NOVA system provides, among others, the following benefits:

- its credit management systems enable us to better monitor our corporate and personal loan business and enhance our credit risk management;
- its customer relationship management systems enable us to develop products tailored to targeted customer segments through customer data mining;
- its comprehensive statistics system provides our management with financial and operational data on a T+1 basis; and
- its performance evaluation management system enables our management to more effectively assess the performance of our products, business lines and branches and to allocate resources more efficiently based on such assessment.

Our information technology platform is supported by our strong information technology research and development capabilities. We received the worldwide “Networking Initiative of the Year” award in June 2006 from *The Banker*, the “Best Banking Technology Development Award” in 2004 from the PBOC for our bank-wide data consolidation project, the “Best Consumer Internet Bank” in China award in 2004, 2005 and 2006 from *Global Finance*, the First Prize of “China Internet Industry Survey Report for Internet Banking” in 2005 from the Internet Society of China, the “Gold Award for Customer Care and Public Service in China” in 2005 from the Ministry of Information Industry and the “Bank with Best Investment Management Services in Corporate Internet Banking” in Asia Pacific award in 2006 from *Global Finance*.

We intend to continue to strengthen our information technology systems to bring them in line with best international practice, including, for example, integrating our overseas and domestic IT platforms.

### ***Fast Growing Fee and Commission Income***

We have experienced fast growth in our fee and commission income, as a result of our strategic focus on developing our non-interest based businesses. In 2005, our net fee and commission income was the highest among the Big Four commercial banks. Our net fee and commission income increased from RMB5,624 million in 2003 to RMB10,546 million in 2005, representing a compound annual growth rate of 36.9%.

Rapid growth in our bank card, clearing and settlement, investment banking, electronic banking and custody service businesses contributed particularly strongly to our total fee and commission income increase. From 2003 to 2005, fee and commission income from our bank card business increased from RMB1,001 million to RMB2,346 million, representing a compound annual growth rate of 53.1%; for the same period, income from our RMB settlement and clearing, investment banking, electronic banking and custody registered a compound annual growth rate of 28.2%, 59.2%, 92.2% and 74.9%, respectively.

We believe that as we plan to focus on and expand our leadership in non-interest based businesses, we will be able to further increase our fee and commission income.

### ***Comprehensive Risk Management and Internal Controls***

We have a risk management framework covering credit, liquidity, market and operational risks. This framework, which is supported by our advanced risk management information technology, enables us to better manage our risks and has contributed to the improvement of our asset quality.

We maintain independent checks and balances in the credit extension process by separating our loan application investigation, credit approval and monitoring functions. In addition, we were the first Big Four commercial bank to commence the implementation of an Internal Ratings-Based approach recommended by the New Basel Capital Accord in 2004. We also adopted a 12-grade corporate loan classification system in 2005. We believe these improvements in our risk management contributed to the lowering of the non-performing loan ratios on the portfolio of our domestic loans made or refinanced after January 1, 1999. See “Assets and Liabilities—Assets—Asset Quality of Our Loan Portfolio—Changes in the Asset Quality of Our Domestic Loan Portfolio by Pre-exiting Loans and New Loans.”

Our systems enable us to monitor our market and liquidity risks for trading and compliance reporting purposes. We strictly adhere to internal market and liquidity limits.

Under a set of internal control guidelines developed by us based on the COSO Internal Control Integrated Framework, we plan to complete a bank-wide internal control framework for our internal controls within three to five years. We were one of the first PRC commercial banks to launch an evaluation on internal control of our branches based on the key components identified within the COSO Internal Controls Integrated Framework. Under our evaluation process, our head office implements a set of internal control standards and evaluates the internal controls of our tier-1 branches, while these tier-1 branches in turn evaluate the internal controls of the lower level branches within their jurisdictions. Our enhanced corporate governance structure and independent internal audit functions have allowed us to strengthen overall supervision and internal compliance with procedures, thereby reducing operational risks.

***Stable and Experienced Management Team***

Our senior management team has extensive industry and leadership experience in China's commercial banking industry. Our chairman, Mr. Jiang Jianqing, who joined ICBC in 1984, has more than 27 years of extensive work experience in the banking industry, including serving first as president of our Shanghai branch and later as vice president of ICBC during the period from 1997 to 2000 and serving as president of our bank from 2000 to 2005. Prior to that, Mr. Jiang worked for the PBOC from 1979 to 1984. He has also held a number of other key leadership positions in the banking industry in China. Our president, Mr. Yang Kaisheng, who joined ICBC in 1985, has more than 21 years of extensive work experience in the banking industry, including serving as president of our Shenzhen Branch from 1995 to 1996, and vice president of ICBC from 1996 to 1999 and from 2004 to 2005. Mr. Yang also served as president of China Huarong Asset Management Corporation from 1999 to 2005, where he gained an in-depth understanding of risk management in China's financial industry.

Our senior management team has a track record of successfully implementing innovative and industry-leading business initiatives, including the early and significant investment in our information technology, the early focus on risk management and internal controls, the reforms to our branch network and business processes, and the conversion of our bank into a joint-stock limited company. We believe this successful track record demonstrates our senior management's strategic vision, proactive approach in adapting to the changing market environment and ability to lead a modern commercial bank of our size. We believe our senior management team will continue to provide us with a critical advantage in an increasingly competitive industry.

**OUR STRATEGY**

We aim to strengthen our market leadership in China's banking industry and focus on transforming our bank into a world-class financial institution. Our overall goal is to maximize shareholder value and achieve sustainable growth. We believe we have distinguished ourselves through our innovative business approach and market leading initiatives. We led the market in investing in centralized information technology, introducing new products and services, establishing comprehensive risk management systems and developing electronic banking networks. We intend to continue this innovative approach and differentiate ourselves through the following strategies:

***Diversify Our Revenue and Asset Mix by Expanding into Higher Growth Non-Credit Businesses***

We plan to diversify our revenue sources by continuing to develop our non-credit businesses. We believe that many fee- and commission-based products and services will experience strong growth over the next few years as China's economy continues to grow, the financial services sector in China further liberalizes and our customers' banking needs become more sophisticated:

- in corporate banking, we aim to strengthen our leadership position in the clearing and settlement, corporate cash management and asset custody businesses by leveraging our extensive corporate customer base. We intend to expand the range of our product and service offerings. We will also continue to improve the synergies between our corporate banking and investment banking businesses;
- in personal banking, by transitioning client deposits into personal wealth management and other investment products, we will seek to improve our overall returns and enhance our asset and liability mix. We intend to focus on developing our personal wealth management

products and services and our bank card business. In addition, we intend to provide products and services tailored to specific markets and customer segments; and

- in our treasury business, we plan to enhance our investment and trading capabilities, upgrade our trading systems, improve the skills of investment and trading personnel, develop new products and services, strengthen our liquidity management and increase the return on our non-credit assets.

We believe that by offering a broader range of non-credit products and services, we will not only improve customer satisfaction and attract new customers, but also create attractive new revenue sources and improve our overall profitability.

### ***Prudently Grow Our Credit Businesses and Actively Enhance Our Credit Portfolio***

We seek to leverage our market leadership in corporate and personal lending to prudently grow our credit businesses and improve our risk-adjusted return by actively managing the sector, geographical, customer and product composition of our credit portfolio. We plan to:

- increase lending to selected industries that we believe to be of higher credit quality and which offer strong market potential. Currently, our targeted industries, with high growth potential, primarily include energy, transportation and telecommunications. We will continue to adjust our industry lending policies as markets evolve;
- increase lending in the economically developed Yangtze River Delta, Pearl River Delta and Bohai Rim regions, and resource-rich areas in central and western China;
- develop lending relationships with high growth potential customer segments, including small- and medium-sized enterprise customers;
- enhance the credit quality of our loan portfolio by increasing our lending to corporations with stronger credit ratings while increasing our collateral requirements for those with lower credit ratings;
- continue to strengthen our market leading position in syndicated lending; and
- focus on personal lending and expand our market share in personal finance products that generate attractive returns, such as personal property mortgages and credit cards.

### ***Continue to Improve Our Customer Mix and Profitability through Increased Customer Segmentation, Targeted Marketing and Enhanced Customer Service***

We will continue to leverage our extensive customer base and database to identify and retain profitable customers in both our corporate banking and personal banking businesses. Our customer relationship management systems, CCRM and PCRM, enable us to collect and analyze information relating to our corporate and personal banking customers on an individual and group basis. By better understanding the characteristics, needs and preferences of our customers, we can design new products, attract more customers and actively cross-sell our financial products and services.

In corporate banking, we have a large team of customer relationship managers that is organized by customer size. The relationships with our most important customers, especially multi-regional conglomerates, are centrally managed by customer relationship management teams at our headquarters with the support of regional customer relationship teams at our branches. In addition, our regional

customer relationship teams at our branches also focus on the important customers in their respective geographic regions. We will continue to enhance our customer service through the training of our customer relationship teams and the implementation of performance-based incentive programs.

In personal banking, we are in the process of developing standardized services and distribution methods bank-wide to provide different services to various customer segments with a special focus on wealthy customers and customer groups with high growth potential. Our personal customer relationship management system enables us to provide tailored services and products. We will continue to streamline the operations of our branches and outlets and strengthen our personal banking sales force and customer service.

To grow our overall customer base, we will continue to develop new products targeted at attractive customer groups. For example, we have launched our Elite Club Account services to serve wealthy clients and plan to introduce product and service packages targeted at small- and medium-sized enterprises.

***Strategically Expand Our Traditional Branch Network and Enhance Our Sales and Marketing Capabilities through Strengthening Our Electronic Banking Operations***

To further enhance the marketing of our products and services and achieve greater operational efficiencies, we intend to fully leverage our advanced information technology platform and customer relationship management systems. In order to provide our customers with convenient access to our products and services, we also intend to expand our electronic banking operations and improve the productivity of our traditional branch network through streamlining the operations of our branch network. We are in the process of consolidating our traditional branch network and other operational resources while strengthening our wealth management centers in selected large- and medium-sized cities. Building on our extensive distribution network, we are selectively expanding our branch network in three economically developed regions, the Yangtze River Delta, Pearl River Delta and Bohai Rim regions. In addition, to take advantage of the rapid growth in foreign trade and better serve our multinational clients, we intend to further expand our network by establishing additional overseas branches and outlets. We aim to leverage our existing relationships with multinational companies and large PRC enterprises with established overseas operations to expand our market presence outside China and gain new business from overseas companies seeking to expand into China.

We seek to leverage our leading electronic banking operations by further promoting customer use of our electronic banking platform, which enables us to achieve greater operational efficiency. In addition, we believe that our electronic banking platform provides greater convenience to our customers, which promotes customer satisfaction and loyalty and increases customer retention. We plan to expand our electronic banking operations through the installation of additional ATMs and upgrading of our technology platforms for telephone and online banking services to deliver more products and services to our customers in a timely, reliable and convenient manner and to further increase revenue derived through our electronic banking platform.

***Continue to Strengthen Our Risk Management and Internal Control Capabilities***

We plan to continue to align our risk management and internal control capabilities with international best practices. To this end, we intend to:

- continue to develop our risk management culture;

- further strengthen the independence of the internal control functions and improve our bank-wide internal control systems;
- continue the rollout of the Internal Ratings-Based approach in our risk management systems and improve our capabilities of identifying and quantifying risks;
- introduce risk-based pricing into our credit risk management process;
- further improve our risk warning and early identification and prevention capabilities; and
- enhance asset and liability management capabilities and further centralize our risk management.

### ***Leverage Our Partnerships with Strategic Investors***

We are cooperating with our overseas strategic investors to improve our corporate governance, strengthen our new product development capabilities and diversify our product and service offerings:

- we are working with Goldman Sachs to strengthen our corporate governance practices, particularly in risk management and internal controls, and enhance our treasury operations, asset management, corporate banking and investment banking operations as well as our non-performing loans disposal capabilities;
- we are collaborating with Allianz to develop and provide a broader range of bancassurance products and services to our customers; and
- we intend to further expand our cooperation with American Express, which began in 2004, to improve our bank card business, particularly in the areas of product development, sales and marketing, risk management and customer service.

### ***Enhance Employee Performance through Performance-linked Incentive Schemes and Continuous Training and Development***

We will continue to develop our human resources through various initiatives in order to support our business strategies. We have introduced four career tracks into our human resource system, namely, “managerial,” “professional,” “sales and marketing” and “operational,” in order to facilitate employee career development and enhance performance appraisal and remuneration measures. We intend to continue to provide training and development programs (including those arranged with our overseas strategic investors) for our employees, to enhance their skills and professional development. We also intend to further improve our management and employee incentive system, including adopting an economic value-added (EVA)-based incentive scheme, such that employee income is tied to our employees’ personal performance and the contribution made by their respective work units. We believe that through these initiatives we can attract, retain, motivate and develop a high quality workforce.

## BUSINESS

### OUR PRINCIPAL BUSINESS ACTIVITIES

Our principal business segments are corporate banking, personal banking, treasury operations and other operations. The following table sets forth, for the periods indicated, our total operating income by segment.

	For the year ended December 31,						For the six months ended June 30,			
	2003		2004		2005		2005 (unaudited)		2006	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)									
Corporate banking . . .	76,893	57.9%	81,019	54.8%	87,482	51.0%	40,014	49.3%	43,617	50.9%
Personal banking . . . .	32,655	24.6	40,269	27.2	53,681	31.3	26,417	32.6	29,679	34.6
Treasury operations . . . . .	20,566	15.5	24,313	16.4	28,296	16.5	14,081	17.4	11,905	13.9
Others <sup>(1)</sup> . . . . .	2,670	2.0	2,358	1.6	2,161	1.2	580	0.7	549	0.6
<b>Total operating income . . . . .</b>	<b>132,784</b>	<b>100.0%</b>	<b>147,959</b>	<b>100.0%</b>	<b>171,620</b>	<b>100.0%</b>	<b>81,092</b>	<b>100.0%</b>	<b>85,750</b>	<b>100.0%</b>

(1) Includes equity investments and income and expenses that are not directly attributable to a segment or cannot be allocated on a reasonable basis.

The following table sets forth, at the dates indicated, our loans to customers by business line.

	At December 31,						At June 30,	
	2003		2004		2005		2006	
	Amount	% of total	Amount	% of total	Amount <sup>(1)</sup>	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Corporate loans . . . . .	2,761,699	81.2%	2,811,490	75.8%	2,277,396	69.2%	2,400,230	69.4%
Discounted bills . . . . .	156,489	4.6	310,148	8.4	392,717	11.9	416,336	12.0
Personal loans . . . . .	407,672	12.0	486,867	13.1	515,042	15.7	533,087	15.4
Overseas operations . . . . .	76,417	2.2	99,243	2.7	104,398	3.2	111,427	3.2
<b>Total loans to customers . . . . .</b>	<b>3,402,277</b>	<b>100.0%</b>	<b>3,707,748</b>	<b>100.0%</b>	<b>3,289,553</b>	<b>100.0%</b>	<b>3,461,080</b>	<b>100.0%</b>

(1) The amounts at December 31, 2005 reflect our restructuring-related disposal.

### Corporate Banking

#### *Overview*

We believe that we have the largest corporate banking customer base in China, with more than 2.5 million customers at June 30, 2006. We offer a broad range of corporate banking products and services to corporations and other entities, including state-owned enterprises, private enterprises, foreign-invested enterprises and government agencies, which we refer to collectively as our corporate banking customers. Our corporate banking products and services include loans, discounted bills, deposit-taking, and fee- and commission-based services such as clearing and settlement, cash management, agency services, foreign exchange, guarantee services, custody and investment banking.

#### *Corporate Loans*

Corporate loans have historically constituted the largest component of our loan portfolio. Our corporate loans consist of short-term loans and medium- and long-term loans. At June 30, 2006, we

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had RMB2,400.2 billion of domestic corporate loans outstanding, representing 69.4% of our total loan portfolio, among which Renminbi-denominated domestic corporate loans amounted to RMB2,284.1 billion, or 95.2% of our total domestic corporate loans outstanding.

The following table sets forth, at the dates indicated, the outstanding balance of our domestic corporate loan portfolio by loan type:

	2003		At December 31,				At June 30,	
			2004		2005		2006	
	Amount	% of total	Amount	% of total	Amount <sup>(1)</sup>	% of total	Amount	% of total
(in millions of RMB, except percentages)								
Short-term loans . . . . .	1,652,999	59.9%	1,536,922	54.7%	938,909	41.2%	953,228	39.7%
Medium- and long-term loans:								
Project loans and other loans . . .	942,965	34.1	1,059,224	37.7	1,091,937	47.9	1,159,841	48.4
Property development loans . . .	138,702	5.0	161,414	5.7	174,267	7.7	204,641	8.5
Syndicated loans . . . . .	27,033	1.0	53,930	1.9	72,283	3.2	82,520	3.4
Subtotal . . . . .	1,108,700	40.1	1,274,568	45.3	1,338,487	58.8	1,447,002	60.3
<b>Total . . . . .</b>	<b>2,761,699</b>	<b>100.0%</b>	<b>2,811,490</b>	<b>100.0%</b>	<b>2,277,396</b>	<b>100.0%</b>	<b>2,400,230</b>	<b>100.0%</b>

(1) The amounts at December 31, 2005 reflect our restructuring-related disposal.

### *Short-Term Corporate Loans*

We provide short-term loans with maturities of up to one year to our corporate banking customers. A substantial majority of our short-term loans are working capital loans. In addition, we provide our corporate banking customers with bill advances and purchasing, factoring and forfaiting and trade finance loans.

### *Medium- and Long-Term Corporate Loans*

Our medium- and long-term corporate loans, which generally have maturities ranging from one to ten years, primarily include project loans, property development loans and syndicated loans.

*Project Loans and Other Loans.* We provide medium- and long-term project loans to our corporate customers primarily to meet their funding needs for the construction, expansion, renovation or acquisition of fixed assets. Our policy is to require that the underlying projects comply with the industry-based governmental policies as well as our internal credit policies. Our project loans generally have terms of up to 10 years, which may be extended, and have a floating interest rate. At June 30, 2006, approximately 66.0% of our project loans were secured by collateral or guaranteed by a third party. The proceeds of our project loans can only be used to fund the project for which the loans are specifically granted, and the loan proceeds are generally disbursed in phases according to the specified targets or milestones of the underlying project.

*Property Development Loans.* We provide medium- and long-term property development loans to our corporate customers primarily to finance the construction of their property development projects. Our residential property development loans typically have maturities of no longer than three years and accounted for 78.5% of our property development loans at June 30, 2006. These property development loans generally have a floating interest rate and are generally secured by collateral. We only grant

property development loans for projects that have been approved by relevant government authorities and we require that the loan proceeds be used for designated projects.

*Syndicated Loans.* We provide syndicated loans, typically in connection with large-scale expansion and other development projects. We believe that as the syndicated loan market in China further develops, we should be able to diversify our corporate loan portfolio exposure and enhance our ability to service our clients' large-scale financing needs.

### ***Discounted Bills***

Commercial bills are issued by Chinese enterprises to entrust an accepting party to make an unconditional payment to the payee or bearer of the bill on a pre-determined date. These bills are generally used for post-delivery or delayed payment purposes in connection with sales of goods. Bank acceptance bills are commercial bills accepted by banks. Trade acceptance bills are commercial bills accepted by non-banking enterprises or institutions. The payee or bearer of a commercial bill may present it to us for immediate payment prior to the pre-determined payment date at a discount to the face amount of the bill. The discount represents the financing cost to such payee or bearer. As a source of short-term financing for our corporate banking customers, we purchase bank acceptance bills that have a remaining maturity of less than six months at a discount. We may re-sell these bills to the PBOC or other financial institutions to increase our liquidity. In addition to bank acceptance bills, we also purchase trade acceptance bills issued by a limited number of pre-approved major corporations. Discounted bank acceptance bills outstanding amounted to RMB381.6 billion, representing 91.7% of our total discounted bills outstanding at June 30, 2006. Discounted trade acceptance bills outstanding amounted to RMB34.7 billion at June 30, 2006. We ranked first among all PRC commercial banks in terms of the total balance of discounted bills outstanding at June 30, 2006, with a market share of 21.4%. We were the first PRC commercial bank to centralize the management of discounted bill business. In 2000, we established China's first bill center in Shanghai to centrally manage our discounted bill business.

### ***Fee- and Commission-Based Products and Services***

We offer our corporate banking customers a wide range of fee- and commission-based products and services, including clearing and settlement, cash management, agency services, foreign exchange, guarantee services, custody and investment banking. We have become increasingly focused on developing and offering fee- and commission-based corporate banking products and services in recent years. We believe that such corporate banking products and services not only provide us with additional sources of income, but also foster long-term relationships with our customers by offering them more choice and flexibility.

#### ***Clearing and Settlement and Cash Management Services***

We provide our corporate banking customers with domestic clearing and settlement services, including bank drafts, promissory notes, checks, foreign currency exchange, letters of credit, remittances and collections.

We provide integrated cash management services to large corporate banking customers to assist them in managing their cash flow. Our cash management services include cash collection, disbursement, account management and liquidity management. We also provide the affiliates of our

corporate banking customers with group-wide fund pooling, transfer and other fund management services. Through our Internet banking platform, our corporate banking customers operating through group entities in multiple locations are able to monitor and transfer funds between group accounts on a real-time basis. We expect demand for our cash management services to continue to grow as our customer base expands and the cash management needs of our corporate banking customers become more sophisticated. We had 24,723 cash management customers at June 30, 2006.

### *Agency Services*

We provide agency services to our corporate banking customers and financial institutions. Our agency services primarily include entrusted lending services for corporations, entrusted housing-related lending services, monitoring services for loans, collection of principal and interests and settlement agency services.

### *Foreign Exchange*

We provide a broad range of foreign exchange services to our corporate banking customers.

### *Guarantee Services*

Our guarantee services to corporate customers primarily include bid bonds, performance bonds, pre-payment guarantees, operating lease guarantees, financial lease guarantees, credit guarantees and various stand-by letters of credit.

### *Custody Services*

We provide a range of custody services, including fund settlement, accounting, asset valuation, performance evaluation, and investment monitoring services to open-end funds, corporate annuity funds, social security funds, insurance companies, qualified foreign institutional investors and other banking customers. In 1998, we became the first PRC commercial bank to offer custody services. According to the CSRC, we ranked first among all PRC commercial banks, from 1998 through 2005, in terms of the total assets under custody. At June 30, 2006, we had approximately RMB282.9 billion of assets under custody, which represented a 34.1% market share in China. We have been named “Best Custodian Bank in China” by *Asset* in 2005, “Best Custodian Bank in China” by the *Global Custodian* in 2004 and 2005, and “Best Sub-Custodian in China” by *Asiamoney* in 2004.

### *Investment Banking*

We provide a broad range of investment banking services through our investment banking department at our head office and dedicated investment banking business units at 25 of our tier-1 branches. We engage in long-term financial advisory services, investment and financing advisory services, restructuring and acquisition advisory services, syndicated loan arrangement services, debt issuance advisory services, commercial paper underwriting services, corporate information services and asset securitization advisory services.

An important aspect of our investment banking business is providing long-term financial advisory services to corporate and institutional clients, which include advice on project investment and financing, business plan development, and in-depth analysis of specific industries and financial markets. For the six months ended June 30, 2006, our revenue from financial advisory services

increased by 38.9% to RMB654.0 million as compared to the corresponding period in 2005. We were one of the first PRC commercial banks to be approved by the PRC bank regulators to underwrite short-term commercial paper issued by qualified PRC corporations in China's inter-bank market. We have been increasing our underwriting of issuances of short-term commercial paper by our corporate banking customers. According to China Government Securities Depository Trust & Clearing Co., Ltd., for the three months ended March 31, 2006, we ranked first among all PRC commercial banks in terms of the number of short-term commercial paper transactions underwritten. We sponsored the non-performing asset securitization of our Ningbo branch, which was the first issue of a securitization product without any guarantee or repurchase commitment in China, and was named the "Best Transaction of the Year 2004" by *CFO Asia*. We advised Zhangyu Pioneer Wine Company Limited as its financial advisor on its equity transfer project, which was selected as one of the "Top Ten 2005 Merger Transactions" by, among others, the China Merger & Acquisition Association.

### ***Corporate Deposits***

We offer our corporate banking customers a range of interest-bearing time and demand deposit-taking services in Renminbi and major foreign currencies. The maximum interest rates we are permitted to pay on regular time deposits and demand deposits are set by the PBOC. We are permitted to negotiate interest rates for deposits from certain financial institutions, such as insurance companies, the SSF, provincial employee pension funds and postal deposit institutions. In addition, we offer notice deposits with a minimum balance requirement of RMB500,000, which allow our customers to withdraw their balance upon one or seven days advance notice. We believe that our corporate deposit base provides us with a significant source of low cost, stable funding. At June 30, 2006, our domestic corporate deposits represented 44.8% of our total domestic deposits and our domestic corporate demand deposits represented 62.7% of our domestic demand deposits.

At June 30, 2006, our total domestic corporate deposits amounted to RMB2,699.7 billion, of which 97.3% were denominated in Renminbi and 2.7% were denominated in foreign currencies. Our Renminbi-denominated domestic corporate deposits amounted to RMB2,626.1 billion at June 30, 2006. Our Renminbi-denominated domestic corporate deposits increased 12.1% to RMB2,410.2 billion at December 31, 2005 from RMB2,150.0 billion at December 31, 2004, which increased by 11.3% from RMB1,930.9 billion at December 31, 2003. According to the PBOC, at December 31, 2005, we had the largest outstanding balance of corporate deposits among all PRC commercial banks, with a market share of 17.4%.

### ***Marketing***

Our head office is responsible for formulating our overall corporate banking business development plans. Our branches and sub-branches develop and implement detailed corporate banking marketing plans tailored to local needs based on our overall business plan and corporate banking marketing strategies.

Our corporate banking marketing efforts are primarily conducted by our corporate banking relationship managers. At June 30, 2006, we had more than 25,000 corporate banking relationship managers who work closely with other specialized staff to cross-sell our products and services. For corporate banking customers with operations in different locations, our corporate banking relationship managers at our headquarters and different branches work together as a team in order to effectively manage the overall customer relationship.

We have developed a customer relationship management system which helps us formulate effective marketing strategies. We are also developing a set of marketing initiatives targeting small- and medium-sized enterprises.

## **Personal Banking**

### *Overview*

We believe that we have the largest personal banking customer base in China, with more than 150 million personal banking customers. Our personal banking products and services include personal loans, bank cards, personal deposits and a broad range of fee- and commission-based personal banking products and services. The income contributed by our personal banking segment accounted for 34.6% of our total operating income for the six months ended June 30, 2006, as compared to 32.6% for the corresponding period in 2005. According to the PBOC, at December 31, 2005, we ranked first among PRC commercial banks in terms of our outstanding balances of personal loans and deposits, with a market share of 24.0% and 20.9%, respectively.

### *Personal Loans*

We provide personal property mortgage loans and other types of personal loans to our personal banking customers. At June 30, 2006, our outstanding domestic personal loans amounted to RMB533.1 billion, representing 15.4% of our total loan portfolio.

#### *Personal Property Mortgage Loans*

According to the PBOC, at December 31, 2005, we had the largest portfolio of domestic personal property mortgage loans in China with an aggregate outstanding balance of RMB447.3 billion. At June 30, 2006, the aggregate outstanding balance of our domestic personal property mortgage loans was RMB459.7 billion. We provide personal property mortgage loans to our personal banking customers to finance the purchase of residential and commercial properties. Our personal property mortgage loans are secured by the underlying property being purchased. We may lend up to 80% of the appraised value of the property depending on our evaluation of the creditworthiness of the borrower. The terms of our personal property mortgage loans are up to 30 years. Effective June 1, 2006, the down payment requirement of personal property mortgage loans has been adjusted by the relevant regulatory entities. Our domestic personal property mortgage loans constitute the majority of our personal loan portfolio, accounting for 86.3% of our total outstanding domestic personal loans at June 30, 2006.

#### *Personal Consumption Loans and Other Personal Loans*

We provide a variety of personal consumption loans and other personal loans. Our personal consumption loans include general personal consumption loans, automobile loans, education loans, pledge loans and personal credit. At June 30, 2006, we had RMB73.4 billion of domestic personal consumption loans and other personal loans outstanding, representing 13.7% of our total domestic personal loans outstanding.

Our general personal consumption loans are typically granted for home improvement or the purchase of personal goods. We usually require collateral or third-party guarantees for general personal consumption loans.

Our personal automobile loans are granted for up to 80% of the purchase price of the automobile and usually require collateral or third-party guarantees. Our automobile loans generally have a term of three years.

Our education loans consist of state-subsidized student loans and non-subsidized student loans. The interest to be paid on state-subsidized student loans is partially subsidized by the government. Our non-subsidized student loans are offered to students or their guardians to help finance the students' non-compulsory education and may be used for overseas study.

Our personal pledge loans are generally secured by time deposits, treasury bonds or guarantees. We extend personal credit to borrowers with good credit history.

We also offer other types of personal loans to our customers, a substantial majority of which are personal business loans to our personal banking customers to fund the cash flow requirements of their business operations. We generally require collateral or a third-party guarantee for these business loans. In addition, our personal loans also include bank card overdrafts. See "Assets and Liabilities—Assets—Loans to Customers—Personal Loans."

### *Card Business*

We offer a broad range of card products and services to our personal banking customers, including single and dual-currency credit cards, quasi-credit cards and single and dual-currency debit cards. Our brand name "Peony" for our card products was the first bank card trademark registered in China and is one of the most recognized bank card brands in China. According to the PBOC, we ranked first among bank card issuers in China in terms of total transaction volume in 2005, with a market share of 36.8%. Total income from our card business amounted to RMB1.4 billion for the six months ended June 30, 2006. Total income from our bank card business increased by 45.2% to RMB2.3 billion for the year ended December 31, 2005 from RMB1.6 billion for the year ended December 31, 2004, which increased by 61.4% from RMB1.00 billion for the year ended December 31, 2003.

Our bank cards are accepted through our own network in China as well as the China Unionpay network in China and many other countries. We are one of the founding members of China Unionpay, a bankcard network organization headquartered in China, in which we hold a 5.45% equity interest. Our dual-currency credit cards and dual-currency debit cards are also accepted outside of China through our association with the American Express, MasterCard and Visa networks. Our card business is supported by our extensive proprietary service network, including our 24-hour call centers, branch outlets, electronic banking network and mobile phone banking services.

In 2004, we entered into a credit card partnership agreement with American Express, pursuant to which we and American Express agreed to jointly issue credit cards in China and cooperate in the areas of sales and marketing, customer service, product research and development and risk management of our credit card business.

### *Credit Cards and Quasi-Credit Cards*

We issue Renminbi-denominated credit cards and dual-currency credit cards denominated in Renminbi and either U.S. dollars, Euros or H.K. dollars in China. In December 2005, we became the first PRC commercial bank to issue credit cards compliant with the Europay Mastercard Visa (EMV)

standard. In addition, we issue Renminbi-denominated quasi-credit cards to our personal banking customers, which provide the cardholder with an interest-bearing overdraft line that can be used for up to 60 days. At June 30, 2006, we had approximately 8.2 million credit card and quasi-credit card accounts in China.

We established a Peony Card Center in Beijing in 2002 to centrally manage the credit cards and quasi-credit cards we issue in China. This credit card center maintains independent accounting and management systems and coordinates with our branches to facilitate credit card- and quasi-credit card-related marketing, application, approval, card distribution, account management and customer service functions.

Our income on credit cards and quasi-credit cards consists primarily of commissions we collect from merchants accepting our cards, annual fees, interest, settlement fees and late payment penalties that we collect from our cardholders. As credit cards become an increasingly accepted payment alternative in China, we expect our credit card business to continue to experience significant growth.

#### *Debit Cards*

We offer Renminbi-denominated debit cards and Renminbi- and U.S. dollar-denominated dual-currency debit cards to our customers. Our multi-function debit card provides our customers with access to various financial services, including cash deposit and withdrawal, bill payment and fund transfer. At June 30, 2006, we had 146.3 million Renminbi-denominated debit cards outstanding in China. Our income on debit cards primarily consists of commissions we collect from merchants accepting our cards and annual fees and other service fees we collect from cardholders. The total transaction volume for our Renminbi-denominated debit cards issued in China was RMB105.3 billion for the six months ended June 30, 2006.

#### *Fee- and Commission-Based Products and Services*

We offer our personal banking customers a broad range of fee- and commission-based personal banking products and services such as personal wealth management, remittance and settlement, collection and disbursement and card-related services.

#### *Personal Wealth Management Services*

We offer a broad range of personal wealth management products and services, including financial advisory services, investment management products, bancassurance and agency services. These products and services include “*Wendeli*” (穩得利), a low-risk Renminbi investment product guaranteed by the investment income of high credit-quality Renminbi bonds (including treasury bonds, commercial paper, PBOC bills and other bonds); “*Huicaitong*” (滙財通), a foreign currency product linked to interest rates, exchange rates, commodity indices and credit indices; and “*Zhulianbihe*” (珠聯幣合), a Renminbi structured investment product linked to foreign currency derivatives. In addition, we provide a foreign currency trading product, known as “*Huishitong*” (滙市通), and a gold trading product, known as “*Jinhangjia*” (金行家).

Through our Elite Club Account (理財金賬戶) services, our wealthy customers have access to experienced client relationship managers and enjoy personalized services. At June 30, 2006, we had approximately 2.3 million Elite Club Account customers.

We became the first PRC commercial bank to launch an overseas investment service, offering overseas investment products to domestic residents. PRC commercial banks have only recently been permitted to engage in such business pursuant to the Provisional Measures for Commercial Banks' Overseas Investment Business jointly issued by the PBOC, CBRC and SAFE in early 2006.

We market a variety of third-party financial products to our personal banking customers. Depending on the product type, we derive fees and commissions either from the third-party institutions offering the products or from our customers. The third-party financial products and agency services that we offer include:

- **Securities.** We act as an agent for the issuance and trading of government bonds and open-end fund products and provide fund transfer services between the government, securities companies, and fund management companies and customers who maintain trading accounts with us. According to the MOF, we were the largest distributor of bearer form treasury bonds in China in terms of distribution volume in 2005, with a market share of 31.2%. We were also the largest distributor of open-end funds in China in terms of the total volume of funds distributed in 2005. The total volume of open-end funds we distributed for the six months ended June 30, 2006 and the year ended December 31, 2005 amounted to RMB89.6 billion and RMB70.7 billion, respectively.
- **Bancassurance.** We distribute products and services as an agent on behalf of insurance companies. According to the CIRC, we were one of the market leaders among PRC commercial banks with RMB24.8 billion and RMB32.2 billion bancassurance premiums sold for the six months ended June 30, 2006 and the year ended December 31, 2005, representing a market share of 35.1% and 34.9%, respectively.

### *Remittance and Settlement Services*

We provide Renminbi- and foreign currency-denominated money transfer and remittance services. Utilizing our extensive branch network and advanced electronic banking platform, we offer our electronic money transfer services to our personal banking customers under the trade name “*Remittance Express*” (滙款直通車).

### *Collection and Disbursement Services*

We provide various collection and disbursement services to our customers, including salary payment, utility bill payment, telecommunication bill payment and lottery agency services.

### *Bank Card-Related Services*

We provide settlement services to merchants by processing payments made using credit cards, quasi-credit cards and debit cards. We charge merchants fees based on a percentage of the amount of the transactions we process for them. We have an extensive merchant network in China, with approximately 168,000 participants at June 30, 2006.

### *Personal Deposits*

We offer personal demand deposits and time deposits in Renminbi and foreign currencies. Interest rates on deposits are subject to maximum rates set by the PBOC, below which we have the discretion to set our own interest rates. See “Regulation and Supervision—PRC Regulation and

Supervision—Pricing of Products and Services.” We currently offer time deposit-taking services with terms ranging from three months to five years for Renminbi-denominated deposits, and from one month to two years for foreign currency-denominated deposits.

At June 30, 2006, our outstanding domestic personal deposits amounted to RMB3,278.7 billion, which provided 54.4% of our total domestic deposit funding base. Our outstanding domestic personal deposits increased by 10.5% to RMB3,106.3 billion at December 31, 2005 from RMB2,810.2 billion at December 31, 2004, which increased by 8.9% from RMB2,580.9 billion at December 31, 2003. According to the PBOC, we ranked first among all PRC commercial banks in terms of total outstanding domestic personal deposits at December 31, 2005.

### ***Marketing***

Our head office formulates overall marketing strategies and initiatives for our personal banking products and services and coordinates with all the branches to promote our products through various sales and marketing methods. Our tier-1 branches formulate specific plans tailored to local market conditions and oversee tier-2 branches in implementing these plans.

We are in the process of developing standardized services and distribution methods bank-wide to provide different services to various customer segments with a special focus on wealthy customers and customer groups with high growth potential. For example, we have designed an “*E-generation*” Peony debit card (牡丹靈通卡e時代) to attract college students.

To strengthen our leadership position in personal banking, we are adopting a variety of initiatives to enhance our sales and distribution network and customer relationship management. For example, we encourage our customers to use our convenient electronic banking network and are in the process of consolidating our traditional branch network and further expanding our wealth management centers.

We provide our personal wealth management services primarily through dedicated personal wealth management advisors and over 3,000 wealth management centers supplemented by our electronic banking network. We focus our business development efforts particularly on wealthy customers that maintain an annual average financial asset balance of at least RMB50,000 with us. At June 30, 2006, out of our 10,000 personal banking customer managers, 1,418 were associate financial planners (AFPs), which we believe ranks us first among PRC commercial banks.

We periodically conduct market surveys in major cities in China to gather data to enable us to better understand our targeted customers’ spending habits and satisfaction with specific products. We host wealth management lectures and information seminars to introduce our products and services to potential customers. In addition, we use a variety of mass media and other marketing channels to attract different customer segments. We believe our market surveys and advertising promotions enable us to effectively target our core customers with tailored personal banking products and services.

Our personal customer relationship management system collects, consolidates and analyzes customer-related data, enabling our customer relationship managers to provide tailored services and products based on our customers’ financial needs. In addition, we are in the process of building a bank-wide customer information system, which consolidates customer information in different geographic areas. This system will enable us to provide our customers with a single statement containing integrated account information.

We have increased our efforts in cross-selling personal banking products. For example, we offer personal wealth management services to customers that maintain deposits above a certain amount with us. We also cross-sell our personal banking products and services to different customer groups through coordinated marketing by our personal and corporate banking businesses. For example, by providing salary payment services to our corporate customers, we have the opportunity to market our personal banking products and services to these customers' employees.

### **Treasury Operations**

Our treasury operations primarily consist of our money market activities, the management of our investment portfolio, and treasury transactions conducted on behalf of our customers. For the six months ended June 30, 2006, the operating income of our treasury operations was RMB11.9 billion, accounting for 13.9% of our total operating income.

#### ***Money Market Activities***

Our money market activities primarily consist of (i) short-term borrowings from and loans to other domestic and foreign financial institutions, also known as our inter-bank money market activities; and (ii) repurchase and reverse repurchase transactions. The securities underlying our repurchase and reverse repurchase transactions are predominantly Renminbi-denominated PRC government and policy bank bonds and PBOC bills, with a small portion of foreign currency-denominated bonds primarily issued by foreign government and government agencies.

#### ***Investment Portfolio***

Our investment portfolio consists primarily of debt securities. We classify our investment portfolio into: (i) debt securities at fair value through profit or loss (primarily consisting of debt securities held for trading purposes); (ii) receivables (financial assets, other than derivatives, with fixed or determinable payments that are not quoted in an active market or are not actively traded, and are neither classified as held-to-maturity nor available-for-sale); (iii) held-to-maturity securities; and (iv) available-for-sale securities. Receivables, held-to-maturity securities and available-for-sale securities are held primarily for investment purposes.

#### ***Proprietary Treasury Operations***

Our proprietary treasury operations are primarily conducted at our head office and primarily include trading bonds and notes issued by the PRC government, the PBOC and foreign governments, as well as foreign currency trading. We are a market maker in China's inter-bank market. In addition, we hedge investment risks through derivative transactions.

#### ***Investment Activities***

We set the target return for our investment portfolio principally through our assessment of the interest rate, exchange rate, credit and other risks associated with the investment. We also consider sovereign credit risks in evaluating securities denominated in foreign currencies for inclusion in our investment portfolio. Our investment portfolio currently consists of Renminbi-denominated debt securities issued by the PRC government, the PBOC, policy banks and, to a lesser extent, other financial institutions in China. We also hold commercial paper issued by domestic enterprises. In the

international market, we invest in investment-grade foreign currency debt securities issued by foreign governments, financial institutions, corporations and international organizations.

### ***Treasury Transactions on Behalf of Customers***

We provide a broad range of treasury services to our corporate and personal banking customers. We were one of the first PRC commercial banks approved to provide forward foreign exchange trading services and financial derivatives products. We provide spot and forward foreign exchange trading services and swap transaction services for Renminbi and foreign currencies. We act as an agent for foreign exchange trading on behalf of our clients 24 hours a day. We also trade forward foreign currency contracts, interest rate swaps, currency swaps, options and other financial derivatives on behalf of our customers. According to the SAFE, for the six months ended June 30, 2006, we ranked second among PRC commercial banks with foreign currency-Renminbi trading of US\$66.2 billion, representing 12.3% of the total amount of foreign currency-Renminbi trading by PRC commercial banks.

We are a member of the Shanghai Gold Exchange. According to the Shanghai Gold Exchange, at December 31, 2005, we ranked first among PRC commercial banks in terms of settlement amount of physical gold bullion trading, with a market share of 57.0% and a total settlement value of RMB54.2 billion. We provide physical gold, paper gold and gold derivatives products and services. In order to manage positions resulting from the transactions undertaken on behalf of our customers, we generally enter into hedging and other derivative transactions.

### **Overseas Operations**

We have established a presence in most of the world's major financial centers. Our overseas operations are conducted by our branches in Hong Kong, Macau, Singapore, Tokyo, Seoul, Busan, Frankfurt and Luxembourg, our subsidiaries in Hong Kong, London and Almaty, and our representative offices in New York, Moscow and Sydney. At June 30, 2006, we had 98 overseas branches, subsidiaries, representative offices and outlets, and correspondent relationships with 1,250 foreign banks in 117 countries and regions.

Our overseas operations provide commercial banking, investment banking and brokerage services. We seek to leverage our large customer base and extensive distribution network in China to provide comprehensive financial services for our domestic and overseas customers.

At June 30, 2006, our overseas branches, subsidiaries and controlled entities had total assets of RMB192.5 billion, an increase of 6.6% from RMB180.5 billion at December 31, 2005, which increased by 10.5% from RMB163.4 billion at December 31, 2004. Profit before tax from our overseas operations amounted to RMB1.5 billion for the six months ended June 30, 2006. Profit before tax from our overseas operations increased by 28.3% to RMB2.2 billion for the year ended December 31, 2005 from RMB1.7 billion for the year ended December 31, 2004, which increased by 34.7% from RMB1.3 billion for the year ended December 31, 2003.

We were the first PRC commercial bank to acquire an overseas public bank. Our largest overseas business is ICBC (Asia). In 2000, we acquired the Union Bank of Hong Kong, which was established in Hong Kong in 1964 and was listed on the Hong Kong Stock Exchange in 1973, and subsequently renamed it ICBC (Asia). In 2001, we merged the main business of our Hong Kong

branch with ICBC (Asia). In 2004, ICBC (Asia) acquired the Hong Kong retail and commercial banking operations of Fortis Bank Asia HK. In 2005, ICBC (Asia) acquired the Shenzhen-based Chinese Mercantile Bank to enhance its competitiveness in the Hong Kong banking market by providing integrated PRC-related banking products and services to its Hong Kong customers.

ICBC (Asia) provides a broad range of personal banking and wealth management services and products, including credit card, personal loan, securities trading and insurance. In addition, ICBC (Asia) provides comprehensive corporate banking services and products and holds leading positions in syndicated loans and structured loans in Hong Kong. ICBC (Asia) markets its banking products and services primarily through its branch network and distribution channels in Hong Kong, which include 42 branches, one investment service center, as well as Internet and telephone banking systems. At June 30, 2006, the total assets of ICBC (Asia) amounted to HK\$126.6 billion. At December 31, 2005, ICBC (Asia) was the sixth largest Hong Kong-incorporated bank listed, or controlled by a company that is listed, on the Hong Kong Stock Exchange in terms of total assets. At December 31, 2005, ICBC (Asia) had over 22,000 corporate banking customers and over 144,000 personal banking customers. At June 30, 2006, the ratio of non-performing loans to the total loan portfolio of ICBC (Asia) was 0.8%, compared to 0.9% at December 31, 2005, 1.3% at December 31, 2004 and 1.7% at December 31, 2003.

Through ICEA we conduct a range of investment banking and brokerage businesses primarily in mainland China and Hong Kong. At the Latest Practicable Date, we own 75% of ICEA and The Bank of East Asia, Limited owns the remaining 25%. ICEA's investment banking and brokerage business primarily includes underwriting and financial advisory services, sales and trading of securities, brokerage and investment research services. ICEA's principal place of business is located in Hong Kong with representative offices in Beijing, Shanghai and Guangzhou. ICEA's main customer base covers domestic and international companies, government agencies, institutional investors and retail investors.

## **PRODUCT PRICING**

Our asset and liability management committee is ultimately responsible for determining our pricing policies.

We may set interest rates for our Renminbi-denominated loans at our discretion, subject to a minimum of 90% of the relevant benchmark rates set by the PBOC. Interest rates for our time and demand deposits are determined at our discretion, subject to the relevant maximum PBOC benchmark rates. Certain fee- and commission-based products and services, including basic Renminbi settlement services specified by the CBRC and the NDRC, are subject to government price guidance. We are able to set fees for other fee- and commission-based products and services based on market conditions and our own cost of capital. See "Banking Industry in China—Industry Trends—Strengthened Regulation and Other Banking Sector Reforms" and "Regulation and Supervision—PRC Regulation and Supervision—Pricing of Products and Services."

We have also adopted and implemented an internal fund transfer pricing system. Subject to the approval of our asset and liability management committee, our asset and liability management department determines our internal fund transfer pricing benchmarks based on a number of factors, including prevailing interest rate trends in the capital markets in China, the interest rate structure of our deposits and loans, and the strategies and objectives set by our asset and liability management committee.

## BUSINESS

Subject to applicable rules, regulations and guidelines, we set our prices based upon assessment of related risk-adjusted returns. When determining our pricing, we consider factors including, among others, the risk profile of our assets, an individual customer's contribution to our business, our costs, the expected risk- and- cost-adjusted returns and our internal fund pricing benchmarks. In addition, we consider general market conditions and prices for similar products and services offered by our competitors.

### DISTRIBUTION CHANNELS

We deliver our products and services through a variety of distribution channels. We believe we are the largest provider of electronic banking services (including ATMs, self-service banking centers, Internet banking, telephone banking and mobile phone banking) among PRC commercial banks in terms of total transaction volume. We have integrated our electronic banking network with our traditional branch operations.

#### Branch Network

At June 30, 2006, our traditional branch network consisted of 18,038 domestic branches, outlets and other establishments, including our head office in Beijing, 35 tier-1 branches, 412 tier-2 branches, and 17,506 sub-branches and outlets and 84 other establishments. Our outlets include over 3,000 wealth management centers. Most of our branches are located in urban areas. We also had 98 overseas branches, subsidiaries, representative offices and outlets at June 30, 2006. See “—Our Principal Business Activities—Overseas Operations.”

We have a strong presence in the Yangtze River Delta, the Pearl River Delta and the Bohai Rim regions with 7,738 branches and outlets at June 30, 2006 located in those regions.

The following table sets forth, at the dates indicated, the number of domestic branches, outlets and other establishments by geographical region.

	At December 31,						At June 30,	
	2003		2004		2005		2006	
	Branches, outlets and other establishments	% of total						
Head Office . . . . .	1	—	1	—	1	—	1	—
Domestic institutions directly under head office and their sub-institutions . . . . .	19	0.1%	19	0.1%	19	0.1%	19	0.1%
Yangtze River Delta . . . . .	3,116	12.9	2,885	13.6	2,707	14.4	2,525	14.0
Pearl River Delta . . . . .	2,629	10.9	2,400	11.3	2,199	11.7	2,138	11.9
Bohai Rim . . . . .	3,965	16.4	3,454	16.3	3,202	17.1	3,075	17.0
Central China . . . . .	5,367	22.3	4,711	22.2	4,147	22.1	3,971	22.0
Northeastern China . . . . .	2,778	11.5	2,418	11.4	2,025	10.8	1,985	11.0
Western China . . . . .	6,254	25.9	5,335	25.1	4,464	23.8	4,324	24.0
<b>Total domestic branches, outlets and other establishments . . . . .</b>	<b><u>24,129</u></b>	<b><u>100.0%</u></b>	<b><u>21,223</u></b>	<b><u>100.0%</u></b>	<b><u>18,764</u></b>	<b><u>100.0%</u></b>	<b><u>18,038</u></b>	<b><u>100.0%</u></b>

We have been implementing a branch rationalization program in stages since 1997 to improve our operational efficiency and profitability. Through this program, we have closed or merged a significant number of our less profitable branches. As a result of our efforts, we reduced the number of our domestic branches and outlets from 41,990 at December 31, 1997 to 18,038 at June 30, 2006.

### **Electronic Banking**

We provide electronic banking services that allow our customers to access their accounts and conduct certain transactions 24 hours a day, 365 days a year, over the Internet, telephone or mobile phone, and at ATMs and self-service banking centers at our branch locations. Utilizing a combination of Internet, telephone, mobile phone, and short message service, or SMS, we provide our corporate and personal banking customers with an extensive range of electronic banking services. The transaction amount of our electronic banking services was RMB23,854.1 billion for the six months ended June 30, 2006. The transaction amount of our electronic banking services increased by 21.7% to RMB46,769.9 billion for the year ended December 31, 2005 from RMB38,442.4 billion for the year ended December 31, 2004, which increased by 72.3% from RMB22,316.4 billion for the year ended December 31, 2003.

We generate income from our electronic banking services by charging annual fees, agency fees, settlement fees and transaction fees. We believe a number of our electronic banking brands are nationally recognized, including “*Financial e-Channel*” (金融e通道), the primary brand for our electronic banking services, “*Banking@Home*” (金融@家) for personal Internet banking services, “*ICBC e-Fortune Link*” (工行財e通) for corporate Internet banking services and “95588” for telephone banking services.

### ***Self-Service Banking Centers and ATMs***

At June 30, 2006, we had 1,610 self-service banking centers and 19,026 ATMs, representing increases of 9.3% and 4.1%, respectively, compared to 1,473 self-service banking centers and 18,270 ATMs, respectively, at December 31, 2005, which increased by 31.8% and 12.9% from 1,118 self-service banking centers and 16,189 ATMs, respectively, at December 31, 2004. Self-service banking centers and ATMs provide a cost-efficient alternative to our branches and sub-branches, and we intend to continue to expand this distribution channel.

### ***Internet Banking***

We provide Internet banking services through our website, [www.icbc.com.cn](http://www.icbc.com.cn).

Our corporate Internet banking products and services include our corporate cash management services, collection and disbursement services, structured term deposit, notice deposit, payment and settlement services, securities investment fund and PRC government bond trading. In addition, through our “*Bank-Enterprise Link*” (銀企互聯), we offer our large corporate, government and financial institution customers individualized products and services by allowing them to directly access our dedicated Internet banking system to check and download account information, make money transfers, collect payments and conduct centralized cash management through their own accounting systems and pay settlement service fees and other fees.

Our personal Internet banking products and services include personal account management, money transfer, bill payment, our “Internet foreign exchange market” service, our “Internet securities”

service, our “Internet insurance” service and on-line shopping services. In 2005, we were awarded the First Prize of “China Internet Industry Survey Report for Internet Banking” by the Internet Society of China and the title of “Best Finance, Economics and Securities Website in China” by *Securities Times* in 2005.

### ***Telephone Banking***

Our telephone banking system enables customers to access account information and conduct various banking transactions, including account inquiry, money transfer, bill payment, and securities and foreign currency trading. We offer telephone banking services 24 hours a day, 365 days a year through the “95588” access number, which can be accessed locally throughout China, and the “21895588” access number in Hong Kong. In 2005, we were awarded the “Gold Award for Customer Care and Public Service in China” issued by the Ministry of Information Industry.

### ***Mobile Phone Banking***

Our mobile phone banking system enables our customers to use short messaging services (SMS) through their mobile phones to conduct various banking transactions, including account inquiry, money transfer and bill payment. We also provide notification, reminder and other services to our customers through SMS.

## **INFORMATION TECHNOLOGY**

### ***Centralized Facilities***

Our Shanghai Data Center processes operating and other data for our domestic branches, our head office bills department and our Peony Card Center. In order to protect our information system, we have established a remote backup and testing facility in Beijing. Our Shenzhen Data Center processes operating and other data for our six overseas branches in Asia and ICBC (Asia). In addition, we have established a centralized administrative platform to enhance the utility and security of our operating systems and enable our senior management to better monitor our overall performance.

### ***Research and Development Capabilities***

Our technology development center in Zhuhai is responsible for most of our in-house development efforts. Our data consolidation project was awarded the “Best Banking Technology Development Award” by the PBOC in 2004. We plan to continue to make significant investments in research and development in order to maintain and enhance our competitiveness in the future.

***NOVA—Core Banking System***

In November 2003, we completed our proprietary multifunctional banking system, NOVA, which is designed to enable bank-wide real-time data sharing, real-time remote transaction processing and upgraded Internet functions. We have developed the following business management and processing systems under NOVA to control risk, lower bank-wide operational costs, utilize customer information, improve our customer service and provide enhanced management tools:

- CM2002*— credit management system that enables us to manage our corporate credit business and risk management operations through a centralized nation-wide database, incorporating customer credit rating, credit line approval, evaluation, credit approval, fund disbursement and post-disbursement management.
- PCM2003*— personal credit management system implemented in May 2006 that enables us to unify the operations of different personal credit businesses and monitor these operations through centralized bank-wide data management.
- PVMS*— performance valuation management system that supports our senior management’s decision-making with respect to risk control, resource allocation and business development by providing timely information on product, department and branch performance.
- CCRM/PCRM*— corporate and personal customer relationship management systems that collect data on assets, liabilities, discounted bills and enable us to perform analysis of individual corporate or personal banking customer data. We are currently in the process of developing applications that will capture personal customers’ consumption patterns, habits and preferences. We intend to use this data in the future to develop tailored products and services to tap the potential of specific client segments.
- CS2002*— comprehensive statistics system that provides operational and management data from our various business lines, classifies such operational data based on pre-determined criteria and produces statistical reports on a “T+1” basis.
- CIIS*— client information integration solution system that collects our data and the data provided by PRC regulatory authorities and screens out potential corporate banking and personal banking customers with poor credit history.

**COMPETITION**

We face significant competition in our principal areas of business from commercial banks and other financial institutions in China. We currently compete primarily with the other Big Four commercial banks and other national commercial banks. We are also facing increasing competition from a number of additional sources, including city commercial banks and foreign-invested banks operating in China. In addition, we compete for business with other non-banking financial institutions in China, including postal savings bureaux, credit cooperatives, securities firms and insurance companies. See “Risk Factors—Risks Relating to the Banking Industry in China—Competition in the banking industry in China is increasing.”

## BUSINESS

Our competition with foreign financial institutions will likely intensify significantly in the future. In the accession agreement relating to China's entry to the WTO, the PRC government has undertaken to eliminate all existing measures restricting the geographic presence, customer base and operational licenses of foreign-invested banks operating in China by the end of 2006. In addition, China's CEPA arrangements with Hong Kong and Macau allow smaller banks from those jurisdictions to operate in the PRC, which has also increased competition in the PRC banking industry. See "Banking Industry In China—Industry Trends—Greater Participation by Foreign-Invested Banks."

We compete with other commercial banks and financial institutions in China, particularly with respect to the range, price and quality of products and services, the convenience of banking facilities, brand recognition and information technology capabilities. As the largest commercial bank in China, we believe that we are well-positioned to compete with our existing and future competitors.

See "Financial Information—General Factors Affecting Our Results of Operations—Competition."

### EMPLOYEES

We had 355,312 domestic employees with medium- and long-term employment contracts at June 30, 2006, 361,623 at December 31, 2005, 375,781 at December 31, 2004 and 389,045 at December 31, 2003. The following table sets forth the total number of our domestic employees by function at the dates indicated.

	<u>At December 31, 2005</u>		<u>At June 30, 2006</u>	
	<u>Number of employees</u>	<u>% of total</u>	<u>Number of employees</u>	<u>% of total</u>
Corporate banking . . . . .	31,501	8.7%	31,185	8.8%
Personal banking <sup>(1)</sup> . . . . .	120,224	33.2	117,796	33.1
Treasury operations . . . . .	5,086	1.4	4,902	1.4
Finance and accounting <sup>(1)</sup> . . . . .	90,391	25.0	90,570	25.5
Management . . . . .	12,911	3.6	13,000	3.7
Risk management, internal audit, and legal and compliance <sup>(2)</sup> . . . . .	29,641	8.2	28,588	8.0
Information technology . . . . .	13,869	3.9	13,913	3.9
Others . . . . .	58,000	16.0	55,358	15.6
<b>Total<sup>(3)</sup> . . . . .</b>	<b><u>361,623</u></b>	<b><u>100.0%</u></b>	<b><u>355,312</u></b>	<b><u>100.0%</u></b>

(1) Includes counter personnel of our branch offices.

(2) Includes 6,124 internal audit and internal control employees, representing 1.7% of our total employees at December 31, 2005 and 6,065 internal audit and internal control employees, representing 1.7% of our total employees at June 30, 2006.

(3) Excludes 63,601 employees with short-term contracts at December 31, 2005 and 62,294 employees with short-term contracts at June 30, 2006.

## BUSINESS

The following table sets forth the total number of our domestic employees by age at June 30, 2006.

	At June 30, 2006	
	Number of employees	% of total
Under 31 .....	39,625	11.2%
31 to 40 .....	161,097	45.3
41 to 50 .....	145,085	40.8
over 50 .....	9,505	2.7
<b>Total<sup>(1)</sup></b> .....	<b>355,312</b>	<b>100.0%</b>

(1) Excludes 62,294 employees with short-term contracts.

The following table sets forth the total number of our domestic employees by education at June 30, 2006.

	At June 30, 2006	
	Number of employees	% of total
Graduate degree .....	4,193	1.2%
Undergraduate degree .....	108,619	30.6
Associate degree .....	149,520	42.1
Others .....	92,980	26.2
<b>Total<sup>(1)</sup></b> .....	<b>355,312</b>	<b>100.0%</b>

(1) Excludes 62,294 short-term employees.

Since 1997, we have substantially reduced our number of employees by enhancing the efficiency of our distribution channels and streamlining our organizational structure and business processes.

We contribute to our employees' social insurance, provident housing fund and certain other employee benefits in accordance with PRC laws and regulations.

We have established a performance-based compensation system whereby an employee's compensation is determined based upon his position and performance review. In addition, we plan to further improve our employee compensation system by applying economic value added (EVA) measures to determine branch and employee compensation. Certain key positions are also eligible for share appreciation rights. See "Directors, Supervisors and Senior Management—Share Appreciation Rights Policy."

We provide training programs for our employees to improve their professional competence and skills. We have also been developing our job qualification system whereby we will define the required qualifications for each position throughout our operational processes. A labor union represents the interests of the employees and works closely with our management on labor-related issues. We have not experienced any strikes or other material labor disturbances that have interfered with our operations, and we believe that the relationship between our management and the labor union has been good.

**INTELLECTUAL PROPERTY**

We have nine domestic patents and 36 patent applications pending in China, which are all related to our IT systems. We own various trademarks, including our logo “,” our Chinese name “中國工商銀行,” our English name “Industrial and Commercial Bank of China,” its acronym “ICBC” and any style of their combination. See “Appendix IX—Statutory and General Information—2. Further Information about Our Business—B. Intellectual Property.”

**PROPERTIES**

We are headquartered at No. 55 Fuxingmennei Avenue, Xicheng District, Beijing, PRC.

At August 31, 2006, we held 25,424 properties and leased 7,677 properties in the PRC, Hong Kong, Macau and overseas.

**Owned Properties**

At August 31, 2006, we owned 25,393 properties with an aggregate gross floor area of approximately 25,249,839 square meters in the PRC, of which 22,731 properties are commercial properties with an aggregate gross floor area of approximately 24,192,483 square meters and 2,662 properties are residential and ancillary properties with an aggregate gross floor area of approximately 1,057,356 square meters.

Among the 25,393 total properties, we do not have the relevant title certificates for 1,801 properties with a total gross floor area of approximately 1,546,180 square meters due to various title defects or for other reasons. Among the remaining 23,592 properties, there are 464 properties with building ownership certificates and allocated land use rights certificates.

In addition, at August 31, 2006, we owned 31 properties outside the PRC with an aggregate gross floor area of approximately 14,333 square meters. Our owned properties are primarily used as offices, branches and sub-branches and staff quarters.

**Properties Under Construction**

At August 31, 2006, we had 76 properties under construction, which we estimate will have a total gross floor area of approximately 686,953 square meters upon completion. We have not obtained the relevant land use rights certificates and the relevant construction permits for 20 of these properties with an estimated total gross floor area upon completion of approximately 55,144 square meters. At August 31, 2006, no commercial value has been attributed to these 20 properties.

**Properties to Be Acquired**

At August 31, 2006, we have entered into contracts to purchase 58 commercial and residential properties with an aggregate gross floor area of approximately 118,938 square meters. At August 31, 2006, these properties had not been assigned to us and thus the titles for these properties were not vested in us. No commercial value has been attributed to these properties in our property valuation report.

**Leased Properties**

At August 31, 2006, we leased and sub-leased from various independent third parties 7,616 properties in the PRC with an aggregate gross floor area of approximately 2,052,642 square meters and 61 properties outside the PRC with an aggregate gross floor area of approximately 34,620 square meters.

For the 7,616 leased properties in the PRC, according to the opinion given by our PRC legal advisor, the relevant lessors or landlords have provided the relevant title certificates or consent from the owners to sublet for 2,387 properties representing a total gross floor area of approximately 732,973 square meters. For the remaining 5,229 leased properties, we have not been provided with the relevant title ownership certificates or consent from the owners to sublet. Of these 5,229 leased properties, the lessors or landlords of 2,342 properties with a total floor area of approximately 494,079 square meters have provided confirmation letters which undertake to compensate for all of our losses arising from their defective legal title.

**Property Titles**

For the 22,731 commercial properties held and occupied by us in the PRC, we have obtained the relevant title certificates for 21,094 of them, representing a total gross floor area of approximately 22,785,369 square meters. For the remaining 1,637 commercial properties with a total gross floor area of approximately 1,407,114 square meters, we have not obtained relevant title certificates. We believe that most of these properties can, if necessary, be replaced by other comparable alternative premises without any material adverse effect to our business operations.

For the 2,662 residential and other ancillary properties held and occupied by us in the PRC, we have obtained relevant title certificates for 2,498 of them, representing a total gross floor area of approximately 918,290 square meters. For the remaining 164 residential and other ancillary properties representing a total gross floor area of approximately 139,066 square meters, we have not obtained relevant title certificates. These premises are currently occupied by our employees as staff quarters or used for ancillary purposes such as storage and canteens, which are not material to our business operations.

For the 7,616 leased properties in the PRC, the relevant lessors or landlords have not obtained valid title certificates or consent to sublet for 5,229 properties representing an aggregate gross floor area of approximately 1,319,669 square meters, and the lessors or landlords of 2,887 leased properties with an aggregate gross floor area of approximately 825,590 square meters have not provided confirmation letters to undertake to compensate us for losses arising from their defective legal title. We are of the view that most of these leased properties occupied by us can, if necessary, be replaced by other comparable alternative premises without any material adverse effect to our operations.

Due to various title defects or for other reasons, we cannot obtain the relevant title certificates for some of these properties. For the title defects that we cannot cure, we are of the view that the lack of such title certificates and/or the existence of such title defects will not have a material adverse effect on our business, financial condition and results of operations, as the relevant properties represent a minor portion of the total value of our properties. See “Risk Factors—Risks Relating to Our Business—We do not, and some of our lessors may not, possess the relevant title certificates or have consent from the owners to sublet for some of the properties occupied by us.”

**Property Valuation**

Sallmanns (Far East) Limited, an independent property valuer, has valued our owned property interests with valid title certificates at August 31, 2006 at RMB91,053,314,000. The text of the valuation letter, a summary of values and the valuation certificates issued by Sallmanns (Far East) Limited for this prospectus are set out in Appendix V.

No commercial value is attributed to any leased properties or owned properties without proper title certificates.

**Waiver**

Regarding the format and content of the valuation report, owing to the substantial number of properties we own (25,433 in total) and lease (7,677 in total), we have applied for and obtained a waiver from the Hong Kong Stock Exchange from strict compliance with Rule 5.01, Rule 5.06, Rule 19A.27(4) and Paragraph 3(a) of Practice Note 16 of the Hong Kong Listing Rules and an exemption from the SFC from strict compliance with Paragraph 34(2) of Part II of the Third Schedule to the Companies Ordinance on the grounds that it would be unduly burdensome to include the full valuation report in this prospectus and that taking into account the financial services nature of the Company's business, it would be of little relevance and assistance to potential investors to include excessive details on each property in this prospectus. The exemptions are granted on the conditions that (1) the full valuation report complying with all the requirements of Paragraph 34 of Part II of the Third Schedule to the Companies Ordinance, which will be prepared in the Chinese language only, will be made available for public inspection; and (2) a summary valuation report of all of our property interests prepared on the basis of the full valuation report is included in Appendix V to this prospectus. See the paragraph headed "Documents Available for Inspection" in Appendix X for the time and place that the full valuation report will be available for public inspection.

**LEGAL AND REGULATORY****Licensing Requirements**

As of June 30, 2006, we had obtained the financial operating licenses required for conducting our current businesses.

**Legal Proceedings**

We are involved in certain legal proceedings in the ordinary course of our business. Most of these proceedings involve enforcement claims initiated by us to recover payment on our non-performing loans. The legal proceedings against us include actions relating to customer disputes and claims brought by our counterparties to contracts unrelated to our banking operations, such as property-related disputes. At June 30, 2006, the aggregate amount of material claims of which we and/or any of our subsidiaries were defendants was RMB3,347 million; and the allowance for which amounted to RMB858 million. We believe that adequate provision has been made with respect to current and pending proceedings against us. See "Appendix I—Accountants' Report." We do not expect any of our current and pending legal and arbitration proceedings to have, individually or in the aggregate, a material adverse effect on our business, financial condition or results of operations, even if they are adversely determined against us.

### **Regulatory Reviews and Proceedings**

We are subject to reviews by various PRC regulatory authorities, including the PBOC, the CBRC, the MOF, the CSRC, the CIRC, the SAT, the SAIC, the SAFE and the NAO, and their respective local offices. We have been subject to penalties for our deficiencies discovered by these inspections, examinations and audits. Although neither these investigation findings, nor the penalties imposed on us, have resulted in any material adverse effect on our business, financial condition or results of operations, we have taken actions to remedy the discovered deficiencies. Our overseas branches, representative offices and subsidiaries are subject to local laws and regulations in their respective jurisdictions, as well as regulatory inspections and examinations by relevant authorities in their local jurisdictions.

The following is a summary of the principal regulatory inspections and proceedings in which we have been involved since January 1, 2003:

- The CBRC conducts annual examinations, including on-site inspections of our bank at the head office and branch levels. Based on these examinations, the CBRC issues a report each year on our bank which sets out its findings and makes recommendations for remedial action. The CBRC has reported findings of concentration of credit risk exposure, high non-performing loan ratios prior to our 2005 financial restructuring, and incidents of incorrect loan classification, loan extension for unauthorized projects and improperly authorized personal consumption loans, at certain entities within our company. In its 2005 inspection report, the CBRC noted that we had made significant progress in improving our internal control, risk management and business operations compared with 2003 and 2004, and made improvement recommendations with regard to our deficiencies, which we have fully adopted.
- The NAO conducts audits of certain state-owned companies in China from time to time. Our most recent NAO audit was with respect to the year ended December 31, 2002. In the course of that audit, the NAO noted our progress in the areas of financial management and cost control, but at the same time also discovered incidents of improper lending practices, accounting irregularities such as retaining out-of-account funds, employees' fraud and misconduct and other deficiencies at certain entities within our company. None of our management at the level of tier-1 branch manager or above was involved in these incidents. We informed the NAO of the improvement measures we have taken in respect of the issues raised in its investigation. The NAO has acknowledged the results of our improvement measures.
- We have also been subject to fines imposed by other regulatory authorities such as the PBOC and SAT for non-compliance such as failure to file certain mandatory transaction reports or tax delinquencies at certain branches.

None of the findings described above has resulted in a material adverse effect on our financial condition or results of operations. Nevertheless, we have undertaken a number of remedial measures designed to prevent future violations of laws and to correct the deficiencies identified by the relevant PRC regulatory authorities. For example, in response to the findings by the CBRC and NAO, we imposed penalties on the personnel who were responsible for the non-compliance or violations, implemented more rigorous rules and procedures in areas identified by the CBRC and NAO, such as loan classification and lending process, strengthened accounting management by eliminating out-of-account funds, and developed more advanced information technology systems. In particular, we have

implemented certain operational reforms, including a series of risk management and internal controls initiatives, to enhance our internal controls and reduce deficiencies. See “Our Restructuring and Operational Reform” and “Risk Management.” In developing and implementing these reform initiatives, we considered relevant government policies as well as actual and anticipated regulatory developments and, to the extent feasible, worked in consultation with relevant regulatory authorities.

### **Special Events**

We have, from time to time, detected incidents of fraud and other misconduct committed by our employees, customers and other third parties. These incidents of fraud and misconduct have included corruption, bribery, embezzlement of funds, forgery of loan documentation, and violations of our internal procedures and guidelines. The most significant incidents that we have uncovered since 2003 in terms of the amount of money or the seniority of staff involved are discussed below. In each of these cases, we have disciplined the perpetrators and adopted tailored corrective measures to address any operational or internal control-related weaknesses exposed by their misconduct. We believe that the financial losses and other adverse consequences of these incidents have not had, individually or in the aggregate, a material adverse effect on our business, financial condition or results of operations. We will continue to focus on improving and strengthening our internal controls and risk management functions with the goal of successfully preventing similar incidents from recurring in the future. For information regarding our operational reforms and a series of risk management and internal controls initiatives, see “Our Restructuring and Operational Reform” and “Risk Management.”

#### ***Huaguang Incident***

Between 1996 and 2003, we were exposed to an RMB1.9 billion credit risk as a result of loans illegally extended by our Guangdong Nanhai Sub-branch to Nanhai Huaguang Group. After the incident was discovered, 26 persons were identified as having taken part in bribery or extending loans in violation of lending procedures. We dismissed eleven employees, ten of whom were investigated by the judicial system, and we instituted several corrective measures in an attempt to strengthen our credit risk management, including separation of account management, review of branch risk management performance, creation of different levels of authorization and centralization of management. We have disposed of or written off all of the outstanding loans extended to Nanhai Huaguang Group.

#### ***Wang Jinxian Incident***

Our former Hunan branch manager, Mr. Wang Jinxian was convicted of receiving approximately RMB1.69 million in bribes and approximately RMB1.92 million of unaccounted for assets between 1999 and 2002. In February 2005, Mr. Wang was sentenced to 19 years imprisonment by the Changsha Intermediate People’s Court. After the incident, we reorganized the management of our Hunan branch.

#### ***Ye Jiasheng Incident***

Our former Guangdong assistant branch manager, Mr. Ye Jiasheng, was convicted of receiving RMB1.19 million in bribes and assisting certain companies to improperly obtain loans between 1996 and 2003. In April 2005, he was sentenced to 12 years imprisonment by the Guangzhou Intermediate People’s Court.

***Henan Huaxin Incident***

In 2003, the sub-branch manager of another Big Four bank, colluding with other third parties, defrauded our Henan Huaxin Sub-branch by selling them counterfeit trade acceptance bills in an amount of RMB130 million. Our Huaxin Sub-branch recovered approximately RMB61.7 million and disposed the remaining RMB68.3 million in June 2005. As a result of this incident, 17 of our employees were dismissed and three employees were criminally prosecuted. After the incident, we have further improved the monitoring system for our discounted bill business.