

ASSETS AND LIABILITIES

The following discussion and analysis should be read in conjunction with the Accountants' Report in Appendix I, the unaudited supplementary financial information in Appendix II and the selected financial data, in each case together with the accompanying notes, included elsewhere in this prospectus. The financial information have been prepared in accordance with IFRS.

We completed a financial restructuring in 2005 that has had and is expected to have a significant impact on our results of operations and financial condition.

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At June 30, 2006, our total assets amounted to RMB7,054.6 billion, an increase of 9.3% from RMB6,456.1 billion at December 31, 2005. Our total assets increased by 27.4% to RMB6,456.1 billion at December 31, 2005 from RMB5,069.3 billion at December 31, 2004, which increased by 11.2% from RMB4,557.0 billion at December 31, 2003. The growth from December 31, 2003 to June 30, 2006 was primarily due to the growth in net loans to customers and investment securities. The following table sets forth, at the dates indicated, the components of our total assets.

| | 2003 | | At December 31, 2004 | | 2005 | | At June 30, 2006 | |
|---|-------------------------|----------------------|-------------------------|----------------------|--------------------------|----------------------|-------------------------|----------------------|
| | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| (in millions of RMB, except percentages) | | | | | | | | |
| Loans to customers, total ⁽¹⁾ | 3,402,277 | —% | 3,707,748 | —% | 3,289,553 ⁽⁶⁾ | —% | 3,461,080 | —% |
| Allowance for impairment losses | (636,222) | — | (598,557) | — | (83,692) ⁽⁷⁾ | — | (85,738) | — |
| Loans to customers, net | <u>2,766,055</u> | <u>60.7</u> | <u>3,109,191</u> | <u>61.3</u> | <u>3,205,861</u> | <u>49.7</u> | <u>3,375,342</u> | <u>47.8</u> |
| Investment securities, net ⁽²⁾ | 1,044,730 | 22.9 | 1,230,416 | 24.3 | 2,305,689 | 35.7 | 2,657,819 | 37.7 |
| of which: | | | | | | | | |
| Receivables ⁽³⁾ | 397,996 | 8.7 | 397,996 | 7.9 | 1,074,461 | 16.6 | 1,078,786 | 15.3 |
| Cash and balances with central banks | 457,816 | 10.0 | 508,616 | 10.0 | 553,873 | 8.6 | 598,269 | 8.5 |
| Due from banks and other financial institutions, net ⁽⁴⁾ | 66,009 | 1.5 | 69,430 | 1.4 | 132,162 | 2.0 | 131,133 | 1.9 |
| Reverse repurchase agreements | 71,239 | 1.6 | 21,764 | 0.4 | 89,235 | 1.4 | 105,542 | 1.5 |
| Other assets ⁽⁵⁾ | <u>151,102</u> | <u>3.3</u> | <u>129,907</u> | <u>2.6</u> | <u>169,311</u> | <u>2.6</u> | <u>186,520</u> | <u>2.6</u> |
| Total Assets | <u>4,556,951</u> | <u>100.0%</u> | <u>5,069,324</u> | <u>100.0%</u> | <u>6,456,131</u> | <u>100.0%</u> | <u>7,054,625</u> | <u>100.0%</u> |

(1) Includes advances, all of which were made to our corporate customers. For ease of reference, in this section and the “Financial Information” section of the prospectus, we refer to loans and advances to customers as “loans.”

(2) Net of the allowance for impairment losses in the amount of RMB278 million, RMB277 million, RMB4,221 million and RMB5,016 million at June 30, 2006 and December 31, 2005, 2004 and 2003, respectively.

(3) Consists of the Huarong bonds, special government bond, MOF receivable and special PBOC bills. See “—Investment Securities—Receivables.”

(4) Net of the allowance for impairment losses in the amount of RMB183 million, RMB213 million, RMB5,933 million and RMB6,775 million at June 30, 2006 and December 31, 2005, 2004 and 2003, respectively.

(5) Consists of property and equipment, investments in associates, deferred income tax assets, income tax recoverable and other assets.

(6) The amount of total loans to customers at December 31, 2005 reflects the disposal of RMB635.0 billion of non-performing loans in connection with our financial restructuring.

(7) The amount of the allowance for impairment losses at December 31, 2005 reflects the RMB503.1 billion release from the allowance resulting from the disposal of RMB635.0 billion of non-performing loans in connection with our financial restructuring.

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Our loans to customers are reported net of the allowance for impairment losses on our consolidated balance sheet. The discussion in this section, except as otherwise indicated, is based on the total amount of our loans to customers, before deducting the allowance for impairment losses, rather than the net amount of our loans to customers.

Other than the amount of our loans to customers, the discussion of amounts of our other assets in this section, such as investment securities, cash and balances with central banks and amounts due from banks and other financial institutions, are net of the allowance for impairment losses, except as otherwise indicated.

Impact of Financial Restructuring on Our Assets

As part of our financial restructuring, the MOF retained RMB124.0 billion in our then existing capital. On April 22, 2005, we received a capital contribution of US\$15.0 billion in cash from Huijin.

In May and June of 2005, we disposed of non-performing loans, effectively consisting entirely of corporate loans, in an aggregate amount of RMB635.0 billion and other impaired assets in an aggregate amount of RMB70.0 billion, at book value (before the related allowance for impairment losses). Part of the proceeds from the disposals were accounted for as a receivable from the MOF in an aggregate amount of RMB246.0 billion. We also used the proceeds as consideration for a five-year bill, in an aggregate amount of RMB430.5 billion, issued by the PBOC. This special PBOC bill is not transferable. We have received the PBOC's approval to treat the amount of this special PBOC bill as available for intraday settlement purposes. As a result of the disposals, the related allowance for impairment losses in an aggregate amount of RMB567.6 billion was released and credited to our capital reserve. For discussion purposes in this section and the "Financial Information" section, we generally refer to the RMB635.0 billion of non-performing loans disposed of in connection with our financial restructuring as the "restructuring-related disposal." See "—Investment Securities—Receivables."

Loans to Customers

We provide a broad range of loan products to our customers, the majority of which are denominated in Renminbi. Our loans to customers, net of the allowance for impairment losses, represented 47.8%, 49.7%, 61.3% and 60.7% of our total assets at June 30, 2006, December 31, 2005, 2004 and 2003, respectively.

For a description of the loan products we offer, see "Business—Our Principal Business Activities." For ease of reference, in this section and the "Financial Information" section of this prospectus, references to "corporate loans," "discounted bills" and "personal loans" exclude amounts from our overseas operations.

At June 30, 2006, our total loans to customers amounted to RMB3,461.1 billion, an increase of 5.2% from RMB3,289.6 billion at December 31, 2005. Our total loans to customers decreased by 11.3% to RMB3,289.6 billion at December 31, 2005 from RMB3,707.7 billion at December 31, 2004 primarily due to the restructuring-related disposal. Our total loans to customers at December 31, 2004 increased by 9.0% from RMB3,402.3 billion at December 31, 2003. Assuming that the restructuring-related disposal did not occur, and that the loans disposed of were added back to the balance at December 31, 2005, our total loans to customers at that date would have been RMB3,924.6 billion, or an increase of 5.8% from December 31, 2004.

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Distribution of Loans by Business Line

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 ⁽¹⁾ | % 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 |
| Total loans to customers | <u>3,402,277</u> | <u>100.0%</u> | <u>3,707,748</u> | <u>100.0%</u> | <u>3,289,553</u> | <u>100.0%</u> | <u>3,461,080</u> | <u>100.0%</u> |

(1) The amount of corporate loans at December 31, 2005 reflects our restructuring-related disposal.

Corporate loans constitute the largest component of our loan portfolio. In recent years, we have experienced a higher growth rate in discounted bills and personal loans as a result of changes in the market environment and our strategic emphasis. See “—Corporate Loans,” “—Discounted Bills” and “—Personal Loans.” As a result of these trends and the restructuring-related disposal, discounted bills and personal loans accounted for a larger aggregate percentage of our total loan portfolio at December 31, 2005 than at December 31, 2003.

In the first half of 2006, our medium- and long-term corporate loans continued to increase at a steady pace. In response to the rapid expansion of credit in China in the first quarter of 2006, the PBOC implemented tighter monetary measures in the second quarter of 2006. We took initiatives to reduce the growth of our discounted bills and to create continued growth opportunities for higher-yielding corporate loans. As a result of these measures and a decline in the growth in our residential mortgage loans, which was also primarily attributable to the government’s tighter monetary measures, our discounted bills and personal loans accounted for a slightly smaller aggregate percentage of our total loans to customers at June 30, 2006 than at December 31, 2005.

Corporate Loans

Corporate loans represented 69.4%, 69.2%, 75.8% and 81.2% of our total loans to customers at June 30, 2006, December 31, 2005, 2004 and 2003, respectively. For a description of the products we offer, see “Business—Our Principal Business Activities—Corporate Banking.”

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The following table sets forth, at the dates indicated, our corporate loans by product type.

| | At December 31, | | | | | | At June 30, | |
|--|--|---------------|------------------|---------------|-----------------------|---------------|------------------|---------------|
| | 2003 | | 2004 | | 2005 | | 2006 | |
| | Amount | % of total | Amount | % of total | Amount ⁽¹⁾ | % 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 | 1,108,700 | 40.1 | 1,274,568 | 45.3 | 1,338,487 | 58.8 | 1,447,002 | 60.3 |
| of which: | | | | | | | | |
| Medium- and long-term 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 |
| Total corporate loans | <u>2,761,699</u> | <u>100.0%</u> | <u>2,811,490</u> | <u>100.0%</u> | <u>2,277,396</u> | <u>100.0%</u> | <u>2,400,230</u> | <u>100.0%</u> |

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

At June 30, 2006, our corporate loans amounted to RMB2,400.2 billion, an increase of 5.4% from RMB2,277.4 billion at December 31, 2005. Our corporate loans decreased by 19.0% to RMB2,277.4 billion at December 31, 2005 from RMB2,811.5 billion at December 31, 2004, primarily due to our restructuring-related disposal in May and June 2005. Assuming that the restructuring-related disposal did not occur, and that the loans disposed of were added back to the balance at December 31, 2005, our total corporate loans at that date would have been approximately RMB2,912.4 billion, or an increase of approximately 3.6% from December 31, 2004. Our corporate loans increased by 1.8% to RMB2,811.5 billion at December 31, 2004 from RMB2,761.7 billion at December 31, 2003, primarily due to an increase in medium- and long-term loans.

A substantial majority of our short-term loans are working capital loans. We renewed working capital loans in the past to meet borrowers' needs for long-term financing. A relatively high percentage of these working capital loans had become non-performing by 2003. Short-term loans decreased both in absolute terms and as a percentage of our corporate loan portfolio from December 31, 2003 to December 31, 2005.

From December 31, 2003 to December 31, 2004, the decrease was primarily attributable to a combination of the following factors:

First, we strengthened the enforcement of our lending policies and procedures with respect to making new working capital loans and continued our policy, introduced in 2001, of not renewing short-term loans that were used for longer-term financing purposes.

Second, there has been a market trend in recent years towards replacing short-term loans with discounted bills, which, compared to working capital loans, generally represent a less expensive means of funding for borrowers and, in the case of discounted bills that take the form of bank acceptance bills, lower credit risk for the discounting banks. This trend was reflected in the increased balances of our discounted bills from December 31, 2003 to December 31, 2005.

Third, certain large corporate customers have in recent years improved their cash management and, as a result, reduced their need for short-term loans.

Fourth, we wrote off certain non-performing short-term loans in 2004.

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From December 31, 2004 to December 31, 2005, the decrease in short-term loans was primarily due to the restructuring-related disposal. A substantial majority of the RMB635.0 billion of non-performing loans that we disposed of consisted of short-term loans. The remaining decrease was attributable to the first three factors which affected the balance at December 31, 2004 compared to December 31, 2003, as described above, and, to a lesser extent, the introduction of corporate commercial paper programs in the PRC in 2005, which reduced borrowings in the form of short-term loans by commercial paper issuers.

From December 31, 2005 to June 30, 2006, our short-term loans continued to decrease as a percentage of our corporate loan portfolio but increased in absolute terms. This reflected our recent focus on expanding small-enterprise working capital loans, which are generally secured by collateral and subject to strict monitoring measures, and short-term trade financing businesses.

Medium- and long-term loans consist primarily of infrastructure-related and other project loans, such as loans to the following industries and types of projects: transportation and logistics (including highways, railroads and sea ports), power generation and supplies, data transmission, computer services and software (including telecommunications), and construction (including urban infrastructure construction); as well as property development loans and syndicated loans. Our property development loans consist primarily of loans to residential real estate developers. Medium- and long-term loans increased both in absolute terms and as a percentage of our corporate loan portfolio from December 31, 2003 to June 30, 2006.

The increase in medium- and long-term loans from December 31, 2003 to June 30, 2006 primarily reflected increased lending to the transportation and logistics (in particular, highways, railroads and sea ports), power generation and supplies, construction (in particular, urban infrastructure construction) and mining (in particular, oil exploration) industries, as well as an increase in property development loans, in the case of the balance at December 31, 2005, partially offset by the disposal of non-performing medium- and long-term loans in connection with our financial restructuring. Our increased medium- and long-term lending to these selected industries reflected both the relatively low level of losses we have historically experienced on such loans to these industries and also our belief that they offer the potential for attractive risk-adjusted returns. The increase in property development loans from December 31, 2003 to June 30, 2006 reflected our policy of selectively increasing our exposure to property developers we believe to be of high quality and reputation in selected geographical and relatively high-growth and low-risk markets.

Syndicated loans also increased in both absolute terms and as a percentage of our corporate loan portfolio from December 31, 2003 to June 30, 2006. This increase reflected the market trend towards lending by pools of banks as a means of reducing concentration risk and increasing banks' ability to service large-scale financing needs.

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Distribution of Loan Exposure to Corporate Borrowers by Size

The following table sets forth, at June 30, 2006, the distribution of our loan exposure, in terms of outstanding loan balances, to our corporate borrowers by size.

| | At June 30, 2006 | |
|---------------------------------------|--|---------------|
| | Amount | % of total |
| | (in millions of RMB, except percentages) | |
| Up to RMB10 million | 101,351 | 4.2% |
| Over RMB10 million to RMB50 million | 306,254 | 12.8 |
| Over RMB50 million to RMB100 million | 233,808 | 9.7 |
| Over RMB100 million to RMB500 million | 699,124 | 29.1 |
| Over RMB500 million | 1,059,693 | 44.2 |
| Total corporate loans | 2,400,230 | 100.0% |

Distribution of Corporate Loans by Industry

The following table sets forth, at the dates indicated, the distribution of our corporate loans by industry classifications.

| | At December 31, | | | | | | At June 30, | |
|---|--|---------------|------------------|---------------|-----------------------|---------------|------------------|---------------|
| | 2003 | | 2004 | | 2005 | | 2006 | |
| | Amount | % of total | Amount | % of total | Amount ⁽¹⁾ | % of total | Amount | % of total |
| | (in millions of RMB, except percentages) | | | | | | | |
| Manufacturing | | | | | | | | |
| Chemicals | 163,226 | 5.9% | 161,899 | 5.8% | 106,103 | 4.7% | 109,547 | 4.6% |
| Machinery | 186,129 | 6.7 | 174,057 | 6.2 | 82,034 | 3.6 | 80,072 | 3.3 |
| Iron and steel | 84,671 | 3.1 | 81,776 | 2.9 | 68,558 | 3.0 | 69,305 | 2.9 |
| Textiles and apparels | 124,294 | 4.5 | 116,648 | 4.1 | 59,245 | 2.6 | 63,500 | 2.6 |
| Metal processing | 85,495 | 3.1 | 80,363 | 2.9 | 53,867 | 2.4 | 59,591 | 2.5 |
| Petroleum processing | 42,328 | 1.5 | 42,810 | 1.5 | 44,621 | 2.0 | 51,195 | 2.1 |
| Automobile | 75,353 | 2.7 | 72,802 | 2.6 | 43,276 | 1.9 | 38,101 | 1.6 |
| Electronics | 57,405 | 2.1 | 55,424 | 2.0 | 37,806 | 1.7 | 37,955 | 1.6 |
| Cement | 62,520 | 2.3 | 61,019 | 2.2 | 32,602 | 1.4 | 31,548 | 1.3 |
| Others ⁽²⁾ | 259,996 | 9.4 | 216,474 | 7.6 | 134,264 | 5.8 | 127,093 | 5.3 |
| Subtotal | 1,141,417 | 41.3 | 1,063,272 | 37.8 | 662,376 | 29.1 | 667,907 | 27.8 |
| Transportation and logistics | 309,027 | 11.2 | 379,680 | 13.5 | 367,371 | 16.1 | 412,272 | 17.2 |
| Power generation and supplies | 198,553 | 7.2 | 261,222 | 9.3 | 281,179 | 12.3 | 311,395 | 13.0 |
| Retail, wholesale and catering | 345,465 | 12.5 | 255,591 | 9.1 | 265,906 | 11.7 | 285,391 | 11.9 |
| Property development | 203,385 | 7.4 | 207,071 | 7.4 | 194,024 | 8.5 | 217,284 | 9.1 |
| Education, hospitals and other non-profit organizations | 94,992 | 3.4 | 116,973 | 4.1 | 103,070 | 4.5 | 133,097 | 5.5 |
| Construction | 69,526 | 2.5 | 78,289 | 2.8 | 89,666 | 4.0 | 83,676 | 3.5 |
| Others ⁽³⁾ | 399,334 | 14.5 | 449,392 | 16.0 | 313,804 | 13.8 | 289,208 | 12.0 |
| Total corporate loans | 2,761,699 | 100.0% | 2,811,490 | 100.0% | 2,277,396 | 100.0% | 2,400,230 | 100.0% |

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

(2) Consists primarily of the pharmaceutical, food products, pulp and paper, beverage, and tobacco industries.

(3) Consists primarily of the data transmission, computer services and software, mining, and water works, environmental and administration of public facilities industries.

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The aggregate amount of loans to our borrowers in (i) manufacturing, (ii) transportation and logistics, (iii) power generation and supplies, and (iv) retail, wholesale and catering, which are the four largest industries in terms of our aggregate loan exposure, represented 69.9%, 69.2%, 69.7% and 72.2% of our total corporate loans, at June 30, 2006, December 31, 2005, 2004 and 2003, respectively. Our loans to borrowers in the manufacturing industry decreased from December 31, 2003 to December 31, 2005 both in absolute terms and as a percentage of our total corporate loan portfolio, primarily due to (i) at December 31, 2005, the restructuring-related disposal, and (ii) the gradual reduction of our exposure to the manufacturing sectors that we have identified as suffering from excess capacity.

Discounted Bills

Discounted bills represented 12.0%, 11.9%, 8.4% and 4.6% of our total loans to customers at June 30, 2006, December 31, 2005, 2004 and 2003, respectively.

At December 31, 2005, our discounted bills increased by 26.6% to RMB392.7 billion from RMB310.1 billion at December 31, 2004, which increased by 98.2% from RMB156.5 billion at December 31, 2003. These increases were primarily due to increased market demand for this product, which generally represents a less expensive source of funding for corporate borrowers and generally takes less time to arrange than the more traditional types of short-term corporate loans, coupled with our increased marketing efforts.

At June 30, 2006, our discounted bills amounted to RMB416.3 billion, an increase of 6.0% from RMB392.7 billion at December 31, 2005. The slower rate of growth from December 31, 2005 to June 30, 2006 compared to previous years was primarily attributable to our constraining of the growth of lower-yielding discounted bills in favor of growth in higher-yielding corporate loans in the second quarter of 2006.

The following table sets forth, at the dates indicated, our discounted bills by type. For a description of the types of discounted bills, see “Business—Our Principal Business Activities—Corporate Banking—Discounted Bills.”

| | At December 31, | | | | | | At June 30, | |
|--|-----------------------|----------------------|-----------------------|----------------------|-----------------------|----------------------|-----------------------|----------------------|
| | 2003 | | 2004 | | 2005 | | 2006 | |
| | <u>Amount</u> | <u>% of total</u> |
| (in millions of RMB, except percentages) | | | | | | | | |
| Bank acceptance bills | 148,819 | 95.1% | 268,507 | 86.6% | 350,231 | 89.2% | 381,610 | 91.7% |
| Trade acceptance bills | 7,670 | 4.9 | 41,641 | 13.4 | 42,486 | 10.8 | 34,726 | 8.3 |
| Total discounted bills | <u>156,489</u> | <u>100.0%</u> | <u>310,148</u> | <u>100.0%</u> | <u>392,717</u> | <u>100.0%</u> | <u>416,336</u> | <u>100.0%</u> |

Bank acceptance bills form the major component of our discounted bills portfolio. As they are accepted by another commercial bank, discounting bank acceptance bills generally presents lower credit risk than discounting trade acceptance bills, which are accepted by non-bank corporate entities. A large majority of the trade acceptance bills in our discounted bills portfolio are resold to us by other commercial banks that discounted the bills. As we have legal recourse to the banks selling these bills for repayment, we believe discounting these bills generally present equivalent credit risk to discounting bank acceptance bills. Other than purchasing trade acceptance bills from other banks, we generally only discount trade acceptance bills accepted by a small number of specified corporate entities to which we

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have assigned high internal credit ratings. At June 30, 2006, the trade acceptance bills in our discounted bill portfolio decreased by 18.3% to RMB34.7 billion from RMB42.5 billion at December 31, 2005, primarily attributable to a decrease in the volume of trade acceptance bills discounted and resold to us by small- and medium-sized commercial banks in line with the tighter credit environment in China in the second quarter of 2006.

Personal Loans

The following table sets forth, at the dates indicated, our personal loans by product type.

| | At December 31, | | | | | | At June 30, | |
|--|-----------------|---------------|----------------|---------------|----------------|---------------|----------------|---------------|
| | 2003 | | 2004 | | 2005 | | 2006 | |
| | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| (in millions of RMB, except percentages) | | | | | | | | |
| Personal property mortgage loans | 330,115 | 81.0% | 412,449 | 84.7% | 447,302 | 86.8% | 459,717 | 86.3% |
| Personal consumption loans | 74,695 | 18.3 | 71,354 | 14.7 | 64,309 | 12.5 | 69,443 | 13.0 |
| Bank card overdrafts | 2,862 | 0.7 | 3,064 | 0.6 | 3,431 | 0.7 | 3,927 | 0.7 |
| Total personal loans | 407,672 | 100.0% | 486,867 | 100.0% | 515,042 | 100.0% | 533,087 | 100.0% |

At June 30, 2006, our personal loans amounted to RMB533.1 billion, an increase of 3.5% from RMB515.0 billion at December 31, 2005. Personal loans increased by 5.8% to RMB515.0 billion at December 31, 2005 from RMB486.9 billion at December 31, 2004, which increased by 19.4% from RMB407.7 billion at December 31, 2003, primarily due to increases in personal property mortgage loans, partly offset by decreases in personal consumption loans from December 31, 2003 to December 31, 2005.

Personal property mortgage loans increased in absolute terms from December 31, 2003 to June 30, 2006 and as a percentage of our total personal loan portfolio from December 31, 2003 to December 31, 2005. From December 31, 2003 to December 31, 2004, the increase was primarily due to a combination of (i) our increased focus and marketing efforts on this product, and (ii) increased demand from customers, reflecting the high growth rate in the PRC residential property market, particularly in coastal cities. From December 31, 2004 to June 30, 2006, we experienced a slower rate of growth in personal property mortgage loans, as the amount of new loans—which was primarily attributable to the two factors described above—was to a large extent offset by an increase in prepayments of existing loans ahead of their maturity dates. The increase in prepayments was primarily attributable to a combination of increased personal wealth in the PRC and increased interest rates resulting from (i) increases in the PBOC’s benchmark rates in October 2004 and April 2006 and (ii) the repeal of the PBOC’s mandatory discount rate on personal property mortgage loans in March 2005. The vast majority of our personal property mortgage loans are variable-rate loans.

Personal consumption loans decreased both in absolute terms and as a percentage of our total personal loan portfolio from December 31, 2003 to December 31, 2005. The decrease was primarily due to a decrease in auto loans, which reflected our policy of reducing our exposure to this type of loan. This trend was reversed from December 31, 2005 to June 30, 2006, primarily due to the impact of our expanding personal business loans, a new product we introduced in June 2005 on a pilot basis, partially offset by the continued decrease in auto loans. Personal business loans are generally made to sole proprietors or small private businesses on a secured basis. We have gradually expanded the geographic scope of the pilot program since its launch.

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Bank card overdrafts represent outstanding balances on credit cards and quasi-credit cards. Bank card overdrafts increased in absolute terms from December 31, 2003 to June 30, 2006, primarily due to the increased number of cards we issued, which reflected both our continued marketing efforts and increased acceptance of credit cards as a form of payment in the PRC.

Distribution of Personal Property Mortgage Loans by Size

The following table sets forth, at June 30, 2006, the distribution of our personal property mortgage loans by size.

| | At June 30, 2006 | |
|---|--|---------------|
| | Amount | % of total |
| | (in millions of RMB, except percentages) | |
| Up to RMB50,000 | 25,482 | 5.5% |
| Over RMB50,000 to RMB100,000 | 58,923 | 12.8 |
| Over RMB100,000 to RMB250,000 | 135,365 | 29.5 |
| Over RMB250,000 to RMB500,000 | 115,824 | 25.2 |
| Over RMB500,000 | 124,123 | 27.0 |
| Total personal property mortgage loans | 459,717 | 100.0% |

The table above shows only the distribution by size of individual loans. There may be no correlation between the distribution by size of loans and the distribution by size of the total loan exposure to those borrowers.

Distribution of Loans by Geographical Region

We classify loans geographically based on the location of the branch that originates the loan. There is generally a high correlation between the location of the borrower and the location of the branch that originates the loan, except in the case of our head office, which originates or manages loans to some of our largest corporate borrowers in all geographical regions of China and a large majority of our discounted bills. The following table sets forth, at the dates indicated, the distribution of our total loans to customers by geographical region. For definitions of our geographical regions, see “Definitions and Conventions.”

| | At December 31, | | | | | | At June 30, | |
|---------------------------------------|--|---------------|------------------|---------------|-----------------------|---------------|------------------|---------------|
| | 2003 | | 2004 | | 2005 | | 2006 | |
| | Amount | % of total | Amount | % of total | Amount ⁽¹⁾ | % of total | Amount | % of total |
| | (in millions of RMB, except percentages) | | | | | | | |
| Head Office | 121,317 | 3.6% | 140,324 | 3.8% | 263,117 | 8.0% | 267,865 | 7.7% |
| Yangtze River Delta | 687,872 | 20.2 | 757,085 | 20.4 | 791,990 | 24.1 | 856,732 | 24.8 |
| Pearl River Delta | 475,848 | 14.0 | 509,229 | 13.7 | 453,773 | 13.8 | 484,358 | 14.0 |
| Bohai Rim | 586,009 | 17.2 | 628,580 | 16.9 | 574,513 | 17.4 | 599,742 | 17.3 |
| Central China | 524,733 | 15.5 | 580,275 | 15.7 | 424,628 | 12.9 | 445,232 | 12.9 |
| Northeastern China | 377,969 | 11.1 | 399,326 | 10.8 | 193,000 | 5.9 | 192,066 | 5.5 |
| Western China | 552,112 | 16.2 | 593,686 | 16.0 | 484,134 | 14.7 | 503,658 | 14.6 |
| Overseas | 76,417 | 2.2 | 99,243 | 2.7 | 104,398 | 3.2 | 111,427 | 3.2 |
| Total loans to customers | 3,402,277 | 100.0% | 3,707,748 | 100.0% | 3,289,553 | 100.0% | 3,461,080 | 100.0% |

(1) The amount of total loans to customers at December 31, 2005 reflects our restructuring-related disposal.

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Distribution of Loans by Collateral

Loans secured by mortgages, pledges or guarantees represented, in the aggregate, 78.3%, 79.5%, 80.2% and 79.9% of our total loan portfolio at June 30, 2006, December 31, 2005, 2004 and 2003, respectively. The following table sets forth, at the dates indicated, the distribution of our loan portfolio by the type of collateral.

| | At December 31, | | | | | | At June 30, | |
|--|-------------------------|----------------------|-------------------------|----------------------|-------------------------|----------------------|-------------------------|----------------------|
| | 2003 | | 2004 | | 2005 | | 2006 | |
| | Amount | % of total | Amount | % of total | Amount ⁽¹⁾ | % of total | Amount | % of total |
| (in millions of RMB, except percentages) | | | | | | | | |
| Loans secured by mortgages ⁽²⁾⁽³⁾ | 1,206,412 | 35.5% | 1,332,275 | 35.9% | 1,123,344 | 34.1% | 1,116,296 | 32.3% |
| of which: | | | | | | | | |
| Personal property mortgage | | | | | | | | |
| loans | 330,115 | 9.7 | 412,449 | 11.1 | 447,302 | 13.6 | 459,717 | 13.3 |
| Loans secured by pledges ⁽²⁾⁽⁴⁾ | 391,858 | 11.5 | 591,348 | 16.0 | 726,379 | 22.1 | 791,673 | 22.9 |
| of which: | | | | | | | | |
| Discounted bills | 156,489 | 4.6 | 310,148 | 8.4 | 392,717 | 11.9 | 416,336 | 12.0 |
| Guaranteed loans ⁽²⁾ | 1,119,087 | 32.9 | 1,048,347 | 28.3 | 765,746 | 23.3 | 800,770 | 23.1 |
| Unsecured loans | 684,920 | 20.1 | 735,778 | 19.8 | 674,084 | 20.5 | 752,341 | 21.7 |
| Total loans to customers | <u>3,402,277</u> | <u>100.0%</u> | <u>3,707,748</u> | <u>100.0%</u> | <u>3,289,553</u> | <u>100.0%</u> | <u>3,461,080</u> | <u>100.0%</u> |

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

(2) If a loan is secured by more than one form of security interest, the entire balance of the loan is allocated to the category of collateral which secures the greater portion of the loan or, in the event the loan is equally secured by more than one form of security interest, the category that presents the lower degree of risk in connection with its enforcement.

(3) Represents security interests in certain assets, such as buildings and fixtures, land use rights, machines, equipment, and vehicles, without taking possession.

(4) Represents security interests in certain assets, such as movable assets, certificates of deposit, commercial bills, stock certificates, trademarks, patents or copyrights, by taking possession of or registering against such assets.

Loans secured by mortgages and pledges are subject to loan-to-value ratio limits based on the type of collateral. Guarantors are subject to the same credit approval process as borrowers. Guaranteed loans decreased both in absolute terms and as a percentage of our total loan portfolio from December 31, 2003 to December 31, 2005. From December 31, 2004 to December 31, 2005, the decrease was primarily attributable to the disposal of guaranteed loans in connection with our financial restructuring. The decrease from December 31, 2003 to December 31, 2005 also reflected a change in our lending policies with respect to guaranteed loans. In lending to customers that do not qualify for unsecured loans based on our internal credit risk rating system, we have increasingly required such customers to provide collateral rather than guarantees—on which our exposure to the guarantor is generally unsecured—to secure the loan. From December 31, 2005 to June 30, 2006, guaranteed loans continued to decrease as a percentage of our total loan portfolio but increased in absolute terms, in line with the general growth in our corporate loans. For a discussion of our internal credit risk ratings, see “Risk Management—Risk Management Structure—Credit Risk Management.”

Unsecured corporate loans are made to customers qualifying for such loans based on our internal credit risk rating system. The balance of our unsecured loans increased, both in absolute terms and as a percentage of our total loan portfolio, from December 31, 2003 to June 30, 2006, reflecting an increased percentage of customers with higher internal credit ratings in our customer base.

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Borrower Concentration

In accordance with applicable PRC banking laws and regulations, we are subject to a lending limit of 10% of our Net Capital Base to any single borrower. The following table sets forth, at June 30, 2006, our loan exposure, in terms of outstanding loan balances, to our ten largest single borrowers, all of which were classified as performing.

| At June 30, 2006 | | | | |
|--|--|----------------|------------------|--------------------------------------|
| | Industry | Amount | % of total loans | % of Net Capital Base ⁽¹⁾ |
| (in millions of RMB, except percentages) | | | | |
| Borrower A | Manufacturing | 21,511 | 0.62% | 5.82% |
| Borrower B ⁽²⁾ | Mining | 16,030 | 0.46 | 4.34 |
| Borrower C | Transportation and logistics | 15,392 | 0.45 | 4.17 |
| Borrower D | Water works, environmental and administration of public facilities | 10,049 | 0.29 | 2.72 |
| Borrower E | Construction | 10,030 | 0.29 | 2.71 |
| Borrower F | Water works, environmental and administration of public facilities | 9,451 | 0.27 | 2.56 |
| Borrower G | Data transmission, computer services and software | 8,100 | 0.24 | 2.19 |
| Borrower H ⁽²⁾ | Mining | 8,017 | 0.23 | 2.17 |
| Borrower I | Water works, environmental and administration of public facilities | 7,944 | 0.23 | 2.15 |
| Borrower J | Power generation and supplies | 7,908 | 0.23 | 2.14 |
| Total | | 114,432 | 3.31% | 30.97% |

(1) Represents loan amounts as a percentage of our Net Capital Base, which consists of our core capital and supplementary capital less deductions, each calculated in accordance with CBRC statutory requirements under PRC GAAP. See “Regulation and Supervision—PRC Regulation and Supervision—Liquidity and Other Operational Ratios.” For a calculation of our Net Capital Base at June 30, 2006, see “Financial Information—Capital Resources—Capital Adequacy.”

(2) Members of the same group.

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In accordance with applicable PRC banking guidelines, we are subject to a recommended lending limit of 15% of our Net Capital Base to any single group borrower. The following table sets forth, at June 30, 2006, our loan exposure, in terms of outstanding loan balances, to our ten largest group borrowers, 0.22% of which, or RMB507 million, were classified as non-performing.

| At June 30, 2006 | | | | |
|--|---|----------------|------------------|--------------------------------------|
| | Industry | Amount | % of total loans | % of Net Capital Base ⁽¹⁾ |
| (in millions of RMB, except percentages) | | | | |
| Group A | Manufacturing | 33,813 | 0.98% | 9.15% |
| Group B | Power generation and supplies | 29,571 | 0.85 | 8.00 |
| Group C | Power generation and supplies | 27,750 | 0.80 | 7.51 |
| Group D | Mining | 25,506 | 0.74 | 6.90 |
| Group E | Power generation and supplies | 22,890 | 0.66 | 6.19 |
| Group F | Data transmission, computer services and software | 20,233 | 0.58 | 5.48 |
| Group G | Power generation and supplies | 18,577 | 0.54 | 5.03 |
| Group H | Power generation and supplies | 17,597 | 0.51 | 4.76 |
| Group I | Power generation and supplies | 15,695 | 0.45 | 4.25 |
| Group J | Transportation and logistics | 15,237 | 0.44 | 4.12 |
| Total | | 226,869 | 6.55% | 61.39% |

(1) Represents loan amounts as a percentage of our Net Capital Base, which consists of our core capital and supplementary capital less deductions, each calculated in accordance with CBRC statutory requirements under PRC GAAP. See “Regulation and Supervision—PRC Regulation and Supervision—Liquidity and Other Operational Ratios.” For a calculation of our Net Capital Base at June 30, 2006, see “Financial Information—Capital Resources—Capital Adequacy.”

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Maturity Profile of Loan Portfolio

The following table sets forth, at June 30, 2006, our loan products by remaining maturity.

| | At June 30, 2006 | | | | Total |
|---|---------------------------|-----------------------------|--------------------------|------------------------|------------------|
| | Due less than one year | Due between 1 to 5 years | Due more than 5 years | Overdue ⁽¹⁾ | |
| (in millions of RMB) | | | | | |
| Corporate loans | | | | | |
| Short-term loans | 851,193 | — | — | 102,035 | 953,228 |
| Medium- and long-term loans | 240,955 | 659,185 | 506,854 | 40,008 | 1,447,002 |
| of which: | | | | | |
| Medium- and long-term property development loans | 62,864 | 127,131 | 7,300 | 7,346 | 204,641 |
| Syndicated loans | 6,217 | 27,544 | 48,607 | 152 | 82,520 |
| Subtotal | 1,092,148 | 659,185 | 506,854 | 142,043 | 2,400,230 |
| Discounted bills | 416,336 | — | — | — | 416,336 |
| Personal loans | | | | | |
| Personal property mortgage loans | 49,031 | 168,989 | 240,130 | 1,567 | 459,717 |
| Personal consumption loans | 39,806 | 25,543 | 1,969 | 2,125 | 69,443 |
| Bank card overdrafts | 3,666 | — | — | 261 | 3,927 |
| Subtotal | 92,503 | 194,532 | 242,099 | 3,953 | 533,087 |
| Overseas operations | 37,339 | 45,447 | 27,746 | 895 | 111,427 |
| Total | 1,638,326 | 899,164 | 776,699 | 146,891 | 3,461,080 |

(1) Includes loans on which either principal is overdue, or interest is overdue for more than 90 days. For installment loans, only the installments that are due but remain unpaid are treated as overdue.

At June 30, 2006, 47.3% of our total loans to customers were due in less than one year. Our loans due in less than a year primarily consist of corporate working capital loans and discounted bills. We renew a portion of our performing corporate working capital loans. When we do so, the renewed loans are subject to the same credit approval policies and procedures as newly made loans. A majority of our personal loans had terms of one year or more, primarily because the largest component of our personal loans consisted of personal property mortgage loans, which were generally long-term loans.

Loan Interest Rate Profile

Interest rates are gradually being liberalized in China. Interest rates on Renminbi-denominated loans are subject to resetting after a change in the relevant PBOC benchmark rate. In general, following a change by the PBOC in benchmark rates, the interest rates on corporate loans are reset in accordance with the terms of the loan agreements. However, on loans with remaining maturities of less than one year, it is our general practice not to reset their interest rates, and hence they are effectively fixed-rate loans. The interest rates on personal property mortgage loans are reset on January 1 of the year following the rate changes. See “Regulation and Supervision—PRC Regulation and Supervision—Pricing of Products and Services.”

From January 1, 2004, we have been permitted under new PRC government regulations to extend loans with maturities longer than one year with fixed interest rates. At June 30, 2006, less than 0.1% of our total loans to customers were fixed-rate loans by their terms with maturities of one year or more.

Asset Quality of Our Loan Portfolio

In compliance with the PBOC guidelines, we classify our loans using a five-category loan classification system. See “Regulation and Supervision—PRC Regulation and Supervision—Loan Classification, Provisioning and Write-offs—Loan Classification.” Since October 2005, solely for internal credit risk management purposes, we have adopted a 12-grade loan classification system for our corporate loans, which further refines our five-category loan classification system. For a description of our internal loan classification system, see “Risk Management—Credit Risk Management—Credit Risk Management for Corporate Loans.” Since January 1, 2003, we have assessed for impairment and made provisions for impairment losses on our loans to our customers using the concept of impairment under IAS 39. See “—Allowance for Impairment Losses on Loans to Customers” and Note 16 to our financial information included in the Accountants’ Report in Appendix I to this prospectus. For purposes of this section, we use the terms “impaired loans,” “non-performing loans” or “NPLs” synonymously to refer to the loans identified as “identified impaired loans and advances” in Note 16 to our financial information included in the Accountants’ Report in Appendix I to this prospectus.

Loan Classification Criteria

In determining the classification of our loan portfolio, we assess, on a case-by-case basis, the likelihood of repayment by the borrower and the collectibility of principal and interest on the loan. Our assessment is generally based on a series of general principles that are derived from the PBOC guidelines. These general principles focus on a number of factors, including (i) the borrower’s ability to repay the loan, based on such factors as the borrower’s financial condition, its profitability and cash flow; (ii) the borrower’s repayment history; (iii) the borrower’s willingness to repay; (iv) the net realizable value of any collateral; (v) the prospect for support from any financially responsible guarantor; (vi) the remaining maturity of the loan; (vii) the structure and the seniority of the loan; and (viii) the length of time by which payment of principal or interest on a loan is overdue. The following is a summary of these general principles:

Normal. Loans may be classified as normal only if the borrowers are able to honor the terms of their loans and there is no reason to doubt that the principal and interest payments will not be made in full and on a timely basis. Loans in the normal category generally demonstrate one or more of the following characteristics:

- The borrower maintains sound operations and generates adequate cash flows.
- Principal and interest payments on the loan are made on a timely basis.
- The guarantee or collateral securing the loan, if any, is valid, effective and sufficient.

Special mention. Loans may be classified as special mention if the borrowers have the current ability to repay principal and interest on the loans but the following adverse circumstances exist:

- A principal payment on the loan is overdue for not more than 90 days.
- The operational and financial status of the borrower changes.
- The value of collateral has decreased or the operational and financial status of the guarantor has changed.
- Macroeconomic, industry or market conditions have changed.

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Substandard. Loans may be classified as substandard if the borrowers' inability to repay loans becomes evident to the extent that they are unable to rely solely on their ordinary course of operations to repay principal or interest on the loans and it becomes evident that we will incur certain loan losses even if any collateral or guarantees securing the loans are enforced. Loans in the substandard category generally demonstrate the following characteristics:

- A principal payment or any interest payment on the loan is overdue for more than 90 days but not more than 180 days.
- The borrower has difficulty in repaying the loan.
- The loan needs to be restructured due to adverse changes in the borrower's financial condition or its inability to make payments.

Doubtful. Loans may be classified as doubtful if the borrowers become unable to repay principal and interest on the loans in full and it becomes evident that we will incur significant loan losses even if any collateral or guarantees securing the loans are enforced. Loans in the doubtful category generally demonstrate the following characteristics:

- A principal payment or any interest payment on the loan is overdue for more than 180 days.
- The borrower has completely or partly suspended its operations.
- The project for which the loan was extended has been terminated or suspended due to funding shortages, worsening operating conditions, litigation or other reasons.
- The loan is still overdue or the borrower is still unable to repay the loan in full notwithstanding its restructuring.

Loss. None or only a small portion of the principal and interest on the loans can be recovered after exhausting all possible measures and legal remedies.

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Distribution of Loans by Five-category Loan Classification

The following tables set forth, at the dates indicated, the distribution of our loan portfolio by five-category loan classification. Under our five-category loan classification system, our non-performing loans are classified as substandard, doubtful or loss, as applicable.

| | 2003 | | At December 31, | | | | At June 30, | |
|--|--|----------------------|-------------------------|----------------------|-------------------------|----------------------|-------------------------|----------------------|
| | Amount | % of total | 2004 | | 2005 | | 2006 | |
| | | | Amount | % of total | Amount ⁽¹⁾ | % of total | Amount | % of total |
| | (in millions of RMB, except percentages) | | | | | | | |
| Normal | 2,254,081 | 66.3% | 2,619,708 | 70.6% | 2,833,853 | 86.1% | 3,042,289 | 87.9% |
| Special mention | 323,548 | 9.5 | 303,384 | 8.2 | 301,283 | 9.2 | 276,761 | 8.0 |
| Subtotal | <u>2,577,629</u> | <u>75.8</u> | <u>2,923,092</u> | <u>78.8</u> | <u>3,135,136</u> | <u>95.3</u> | <u>3,319,050</u> | <u>95.9</u> |
| Substandard | 94,498 | 2.8 | 106,348 | 2.9 | 93,049 | 2.8 | 77,846 | 2.3 |
| Doubtful | 355,260 | 10.4 | 335,192 | 9.0 | 56,704 | 1.7 | 59,108 | 1.7 |
| Loss | 374,890 | 11.0 | 343,116 | 9.3 | 4,664 | 0.2 | 5,076 | 0.1 |
| Subtotal | <u>824,648</u> | <u>24.2</u> | <u>784,656</u> | <u>21.2</u> | <u>154,417</u> | <u>4.7</u> | <u>142,030</u> | <u>4.1</u> |
| Total loans to customers | <u>3,402,277</u> | <u>100.0%</u> | <u>3,707,748</u> | <u>100.0%</u> | <u>3,289,553</u> | <u>100.0%</u> | <u>3,461,080</u> | <u>100.0%</u> |
| Non-performing loan ratio⁽²⁾ | 24.24% | | 21.16% | | 4.69% | | 4.10% | |

(1) The amounts reflect restructuring-related disposal.

(2) Calculated by dividing total non-performing loans by total loans.

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| | At December 31, | | | | | | At June 30, | |
|--|-------------------------|---------------|-------------------------|---------------|-------------------------|---------------|-------------------------|---------------|
| | 2003 | | 2004 | | 2005 | | 2006 | |
| | Amount | % of total | Amount | % of total | Amount ⁽¹⁾ | % of total | Amount | % of total |
| (in millions of RMB, except percentages) | | | | | | | | |
| Corporate loans | | | | | | | | |
| Normal | 1,625,058 | 58.8% | 1,743,218 | 62.0% | 1,846,299 | 81.1% | 2,031,556 | 84.7% |
| Special mention | 318,529 | 11.5 | 291,763 | 10.4 | 288,822 | 12.7 | 237,493 | 9.9 |
| Substandard | 92,917 | 3.4 | 103,462 | 3.7 | 88,742 | 3.9 | 74,660 | 3.1 |
| Doubtful | 350,692 | 12.7 | 330,059 | 11.7 | 49,009 | 2.1 | 51,587 | 2.1 |
| Loss | 374,503 | 13.6 | 342,988 | 12.2 | 4,524 | 0.2 | 4,934 | 0.2 |
| Subtotal | <u>2,761,699</u> | <u>100.0</u> | <u>2,811,490</u> | <u>100.0</u> | <u>2,277,396</u> | <u>100.0</u> | <u>2,400,230</u> | <u>100.0</u> |
| Non-performing loan ratio⁽²⁾ | 29.62% | | 27.62% | | 6.25% | | 5.47% | |
| Discounted bills | | | | | | | | |
| Normal | 156,489 | 100.0 | 310,148 | 100.0 | 392,717 | 100.0 | 416,336 | 100.0 |
| Special mention | — | — | — | — | — | — | — | — |
| Substandard | — | — | — | — | — | — | — | — |
| Doubtful | — | — | — | — | — | — | — | — |
| Loss | — | — | — | — | — | — | — | — |
| Subtotal | <u>156,489</u> | <u>100.0</u> | <u>310,148</u> | <u>100.0</u> | <u>392,717</u> | <u>100.0</u> | <u>416,336</u> | <u>100.0</u> |
| Non-performing loan ratio⁽²⁾ | — | | — | | — | | — | |
| Personal loans | | | | | | | | |
| Normal | 399,003 | 97.9 | 472,321 | 97.0 | 493,105 | 95.8 | 486,232 | 91.2 |
| Special mention | 4,392 | 1.1 | 7,693 | 1.6 | 11,026 | 2.1 | 36,884 | 6.9 |
| Substandard | 1,018 | 0.2 | 2,232 | 0.5 | 3,431 | 0.7 | 2,579 | 0.5 |
| Doubtful | 3,236 | 0.8 | 4,570 | 0.9 | 7,405 | 1.4 | 7,314 | 1.4 |
| Loss | 23 | 0.0 | 51 | 0.0 | 75 | 0.0 | 78 | 0.0 |
| Subtotal | <u>407,672</u> | <u>100.0</u> | <u>486,867</u> | <u>100.0</u> | <u>515,042</u> | <u>100.0</u> | <u>533,087</u> | <u>100.0</u> |
| Non-performing loan ratio⁽²⁾ | 1.05% | | 1.41% | | 2.12% | | 1.87% | |
| Overseas operations⁽³⁾ | | | | | | | | |
| Performing | 74,158 | 97.0 | 97,949 | 98.7 | 103,167 | 98.8 | 110,549 | 99.2 |
| Non-performing | 2,259 | 3.0 | 1,294 | 1.3 | 1,231 | 1.2 | 878 | 0.8 |
| Subtotal | <u>76,417</u> | <u>100.0%</u> | <u>99,243</u> | <u>100.0%</u> | <u>104,398</u> | <u>100.0%</u> | <u>111,427</u> | <u>100.0%</u> |
| Non-performing loan ratio⁽²⁾ | 2.96% | | 1.30% | | 1.18% | | 0.79% | |
| Total loans to customers | <u>3,402,277</u> | | <u>3,707,748</u> | | <u>3,289,553</u> | | <u>3,461,080</u> | |
| Non-performing loan ratio⁽⁴⁾ | 24.24% | | 21.16% | | 4.69% | | 4.10% | |

(1) The amounts of corporate loans reflect our restructuring-related disposal.

(2) Calculated by dividing non-performing loans in each category by total loans in that category.

(3) Loans made by our overseas operations are governed by the loan classification systems applicable in the relevant jurisdictions, which are not necessarily comparable with one another or with our five-category loan classification system. Consequently, for purposes of this table, we present these loans as performing or non-performing.

(4) Calculated by dividing total non-performing loans by total loans.

The decrease in the non-performing loan ratio of our total loans to customers from December 31, 2003 to June 30, 2006 reflected an overall improvement in the asset quality of our loan portfolio, primarily attributable to (i) the disposals of non-performing loans in connection with our financial restructuring in 2005; (ii) our continued efforts to strengthen our credit risk management, including by increasing our focus on selective exposures to specific industries and geographical

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regions, improving the risk management capabilities of our information technology systems, and strengthening our credit approval, extension and monitoring policies and practices; and (iii) our increased efforts to recover non-performing loans. This improved trend in our non-performing loan ratio was also positively affected by the overall growth of our loan portfolio.

All of our discounted bills were classified as normal from December 31, 2003 to June 30, 2006, reflecting the facts that (i) a substantial majority of our discounted bills consist of bank acceptance bills, (ii) a large majority of our trade acceptance bills are purchased from other banks, and (iii) we only discount trade acceptance bills that are accepted by a limited number of companies to which we have assigned high internal credit ratings.

Changes in the Asset Quality of Our Domestic Loan Portfolio by Pre-existing Loans and New Loans

The following discussion analyzes the changes in the asset quality of our domestic loans at the dates presented. Since January 1, 1999, in conjunction with a change in our management structure and policy, which also reflected changes in the PRC government's policy on lending by the Big Four commercial banks, we have made significant progress in overhauling and improving our credit risk management practices and systems. This included the implementation of strengthened credit policies and procedures and the launch of the predecessor to our current CM2002 credit management system, which enabled us, among other things, to begin implementing a bank-wide system of credit authorization limits, to monitor the making of new loans on a real-time basis, and to more effectively monitor compliance with our loan classification and provisioning policies and criteria. Accordingly, we believe that January 1, 1999 is an appropriate starting date for purposes of assessing the effectiveness of the improvements to our credit risk management practices and systems, as measured by our asset quality. We also believe that a January 1, 1999 starting date allows us to assess our asset quality over a sufficiently long period to reflect the loan seasoning cycle of a sufficient proportion of domestic loans made subsequent to that date.

For purposes of this discussion, we categorize our domestic loans into "Pre-existing Loans" and "New Loans." Pre-existing Loans include domestic loans made for the first time prior to January 1, 1999 and remained outstanding on the dates indicated in the following table, as they either did not reach their original maturity or were rolled over upon their maturity although not meeting the approval criteria for our newly made loans. New Loans include domestic loans made for the first time after January 1, 1999 and were outstanding on the dates indicated in the following table, which include the loans made prior to January 1, 1999 and subsequently refinanced at maturity after January 1, 1999, upon satisfying the approval criteria for our newly made loans. This discussion does not include any loans made by our overseas operations.

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The following table sets forth, at the dates indicated, the amounts of our Pre-existing Loans and New Loans.

| | At December 31, | | | | | | At June 30, | |
|--|------------------|---------------|------------------|---------------|-----------------------|---------------|------------------|---------------|
| | 2003 | | 2004 | | 2005 | | 2006 | |
| | Amount | % of total | Amount | % of total | Amount ⁽¹⁾ | % of total | Amount | % of total |
| (in millions of RMB, except percentages) | | | | | | | | |
| Pre-existing Loans | 1,273,948 | 38.3% | 997,945 | 27.7% | 208,451 | 6.5% | 161,710 | 4.8% |
| New Loans | 2,051,912 | 61.7 | 2,610,560 | 72.3 | 2,976,704 | 93.5 | 3,187,943 | 95.2 |
| Total | 3,325,860 | 100.0% | 3,608,505 | 100.0% | 3,185,155 | 100.0% | 3,349,653 | 100.0% |

(1) Amounts reflect our restructuring-related disposal.

The following table sets forth, at the dates indicated, the distribution of our Pre-existing Loans by loan classification category.

| | At December 31, | | | | | | At June 30, | |
|--|------------------|------------|----------------|------------|-----------------------|------------|----------------|------------|
| | 2003 | | 2004 | | 2005 | | 2006 | |
| | Amount | % of total | Amount | % of total | Amount ⁽¹⁾ | % of total | Amount | % of total |
| (in millions of RMB, except percentages) | | | | | | | | |
| Corporate loans | | | | | | | | |
| Normal | 266,975 | 21.0% | 118,656 | 11.9% | 46,617 | 22.5% | 36,646 | 22.8% |
| Special mention | 212,675 | 16.7 | 139,640 | 14.0 | 61,525 | 29.6 | 42,569 | 26.4 |
| Substandard | 86,528 | 6.8 | 88,030 | 8.8 | 59,567 | 28.7 | 42,758 | 26.5 |
| Doubtful | 335,597 | 26.4 | 312,352 | 31.4 | 35,927 | 17.3 | 34,574 | 21.5 |
| Loss | 369,602 | 29.1 | 337,605 | 33.9 | 3,907 | 1.9 | 4,541 | 2.8 |
| Subtotal | 1,271,377 | 100.0 | 996,283 | 100.0 | 207,543 | 100.0 | 161,088 | 100.0 |
| Non-performing loan ratio⁽²⁾ | 62.27% | | 74.07% | | 47.89% | | 50.83% | |
| Personal loans | | | | | | | | |
| Normal | 2,222 | 86.4 | 1,414 | 85.1 | 777 | 85.6 | 513 | 82.5 |
| Special mention | 56 | 2.2 | 32 | 1.9 | 29 | 3.2 | 59 | 9.5 |
| Substandard | 41 | 1.6 | 11 | 0.7 | 18 | 2.0 | 7 | 1.1 |
| Doubtful | 245 | 9.5 | 201 | 12.1 | 77 | 8.5 | 41 | 6.6 |
| Loss | 7 | 0.3 | 4 | 0.2 | 7 | 0.7 | 2 | 0.3 |
| Subtotal | 2,571 | 100.0% | 1,662 | 100.0% | 908 | 100.0% | 622 | 100.0% |
| Non-performing loan ratio⁽²⁾ | 11.40% | | 13.00% | | 11.23% | | 8.04% | |
| Total Pre-existing Loans | 1,273,948 | | 997,945 | | 208,451 | | 161,710 | |
| Non-performing loan ratio⁽³⁾ | 62.17% | | 73.97% | | 47.73% | | 50.66% | |

(1) The amounts of corporate loans reflect the disposal of RMB604.1 billion of non-performing Pre-existing Loans in connection with our financial restructuring.

(2) Calculated by dividing non-performing Pre-existing Loans in each category by total Pre-existing Loans in that category.

(3) Calculated by dividing total non-performing Pre-existing Loans by total Pre-existing Loans.

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The following table sets forth, at the dates indicated, the distribution of our New Loans by loan classification category.

| | At December 31, | | | | | | At June 30, | |
|--|-------------------------|---------------|-------------------------|---------------|-------------------------|---------------|-------------------------|---------------|
| | 2003 | | 2004 | | 2005 | | 2006 | |
| | Amount | % of total | Amount | % of total | Amount ⁽¹⁾ | % of total | Amount | % of total |
| (in millions of RMB, except percentages) | | | | | | | | |
| Corporate loans | | | | | | | | |
| Normal | 1,358,083 | 91.1% | 1,624,562 | 89.5% | 1,799,682 | 87.0% | 1,994,910 | 89.1% |
| Special mention | 105,854 | 7.1 | 152,123 | 8.4 | 227,297 | 11.0 | 194,924 | 8.7 |
| Substandard | 6,389 | 0.4 | 15,432 | 0.8 | 29,175 | 1.4 | 31,902 | 1.4 |
| Doubtful | 15,095 | 1.0 | 17,707 | 1.0 | 13,082 | 0.6 | 17,013 | 0.8 |
| Loss | 4,901 | 0.4 | 5,383 | 0.3 | 617 | 0.0 | 393 | 0.0 |
| Subtotal | <u>1,490,322</u> | <u>100.0</u> | <u>1,815,207</u> | <u>100.0</u> | <u>2,069,853</u> | <u>100.0</u> | <u>2,239,142</u> | <u>100.0</u> |
| Non-performing loan ratio⁽²⁾ | 1.77% | | 2.12% | | 2.07% | | 2.20% | |
| Discounted bills | | | | | | | | |
| Normal | 156,489 | 100.0 | 310,148 | 100.0 | 392,717 | 100.0 | 416,336 | 100.0 |
| Special mention | — | — | — | — | — | — | — | — |
| Substandard | — | — | — | — | — | — | — | — |
| Doubtful | — | — | — | — | — | — | — | — |
| Loss | — | — | — | — | — | — | — | — |
| Subtotal | <u>156,489</u> | <u>100.0</u> | <u>310,148</u> | <u>100.0</u> | <u>392,717</u> | <u>100.0</u> | <u>416,336</u> | <u>100.0</u> |
| Non-performing loan ratio⁽²⁾ | — | | — | | — | | — | |
| Personal loans | | | | | | | | |
| Normal | 396,781 | 98.0 | 470,907 | 97.0 | 492,328 | 95.8 | 485,719 | 91.2 |
| Special mention | 4,336 | 1.1 | 7,661 | 1.6 | 10,997 | 2.1 | 36,825 | 6.9 |
| Substandard | 977 | 0.2 | 2,221 | 0.5 | 3,413 | 0.7 | 2,572 | 0.5 |
| Doubtful | 2,991 | 0.7 | 4,369 | 0.9 | 7,328 | 1.4 | 7,273 | 1.4 |
| Loss | 16 | 0.0 | 47 | 0.0 | 68 | 0.0 | 76 | 0.0 |
| Subtotal | <u>405,101</u> | <u>100.0%</u> | <u>485,205</u> | <u>100.0%</u> | <u>514,134</u> | <u>100.0%</u> | <u>532,465</u> | <u>100.0%</u> |
| Non-performing loan ratio⁽²⁾ | 0.98% | | 1.37% | | 2.10% | | 1.86% | |
| Total New Loans | <u>2,051,912</u> | | <u>2,610,560</u> | | <u>2,976,704</u> | | <u>3,187,943</u> | |
| Non-performing loan ratio⁽³⁾ | 1.48% | | 1.73% | | 1.80% | | 1.86% | |

(1) The amounts of corporate loans reflect the disposal of RMB30.9 billion of non-performing New Loans in connection with our financial restructuring.

(2) Calculated by dividing non-performing New Loans in each category by total New Loans in that category.

(3) Calculated by dividing total non-performing New Loans by total New Loans.

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The following table sets forth the distribution of the non-performing Pre-existing Loans and non-performing New Loans disposed of in connection with our financial restructuring.

| | Restructuring-related disposal | |
|--------------------------|--|----------------------|
| | Amount | % of total |
| | (in millions of RMB, except percentages) | |
| Pre-existing Loans | 604,098 | 95.1% |
| New Loans | 30,904 | 4.9 |
| Total | <u>635,002</u> | <u>100.0%</u> |

Migration of Non-performing Corporate Loans

The following table sets forth, at the dates indicated, the changes in the outstanding amounts of non-performing corporate loans in our loan portfolio.

| | Amount | NPL ratio |
|-----------------------------------|--|---------------|
| | (in millions of RMB, except percentages) | |
| At December 31, 2003 | 818,112 | 29.62% |
| Increase | 70,510 | |
| Reduction | (112,113) | |
| At December 31, 2004 | 776,509 | 27.62% |
| Increase | 53,246 | |
| Reduction | (687,480) | |
| At December 31, 2005 | 142,275 | 6.25% |
| Increase | 13,749 | |
| Reduction | (24,843) | |
| At June 30, 2006 | <u>131,181</u> | 5.47% |

The following table sets forth, for the period indicated, reduction of our non-performing corporate loans arising from securitizations, write-offs and the restructuring-related disposal:

| | For the year ended December 31, | | | | For the six months ended June 30, | |
|--------------------------------------|--|----------------|-----------|----------------|-----------------------------------|----------------|
| | 2004 | | 2005 | | 2006 | |
| | Amount | % of reduction | Amount | % of reduction | Amount | % of reduction |
| | (in millions of RMB, except percentages) | | | | | |
| Write-off | (48,974) | 43.7% | (26,419) | 3.8% | (5,750) | 23.1% |
| Securitization | (2,602) | 2.3% | — | — | — | — |
| Restructuring-related disposal | — | — | (635,002) | 92.4% | — | — |

At June 30, 2006, the balance of our non-performing corporate loans amounted to RMB131.2 billion, a decrease of 7.8% from RMB142.3 billion at December 31, 2005.

The balance of our non-performing corporate loans decreased by 81.7% to RMB142.3 billion at December 31, 2005 from RMB776.5 billion at December 31, 2004, primarily as a result of the restructuring-related disposal.

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The balance of our non-performing corporate loans decreased by 5.1% to RMB776.5 billion at December 31, 2004 from RMB818.1 billion at December 31, 2003, primarily due to write-offs of non-performing corporate loans. The amount of our non-performing corporate loans was also reduced by RMB2.6 billion as a result of the sale of non-performing corporate loans in a securitization transaction at one of our branches.

Distribution of Non-performing Loans by Product Type

The following table sets forth, at the dates indicated, our non-performing loans by product type.

| | At December 31, | | | | | | | | | At June 30, | | |
|--|-----------------|---------------|--------------------------|----------------|---------------|--------------------------|-----------------------|---------------|--------------------------|----------------|---------------|--------------------------|
| | 2003 | | | 2004 | | | 2005 | | | 2006 | | |
| | Amount | % of total | NPL ratio ⁽¹⁾ | Amount | % of total | NPL ratio ⁽¹⁾ | Amount ⁽²⁾ | % of total | NPL ratio ⁽¹⁾ | Amount | % of total | NPL ratio ⁽¹⁾ |
| (in millions of RMB, except percentages) | | | | | | | | | | | | |
| Corporate loans | | | | | | | | | | | | |
| Short-term loans | 629,418 | 76.3% | 38.08% | 585,915 | 74.7% | 38.12% | 109,472 | 70.9% | 11.66% | 98,246 | 69.2% | 10.31% |
| Medium- and long-term loans | 188,694 | 22.9 | 17.02 | 190,594 | 24.3 | 14.95 | 32,803 | 21.2 | 2.45 | 32,935 | 23.2 | 2.28 |
| of which: | | | | | | | | | | | | |
| Medium- and long-term property development loans | 18,315 | 2.2 | 13.20 | 19,679 | 2.5 | 12.19 | 5,800 | 3.8 | 3.33 | 6,290 | 4.4 | 3.07 |
| Syndicated loans | 282 | 0.0 | 1.04 | 247 | 0.0 | 0.46 | 207 | 0.1 | 0.29 | 152 | 0.1 | 0.18 |
| Subtotal | 818,112 | 99.2 | 29.62 | 776,509 | 99.0 | 27.62 | 142,275 | 92.1 | 6.25 | 131,181 | 92.4 | 5.47 |
| Discounted bills | — | — | — | — | — | — | — | — | — | — | — | — |
| Personal loans | | | | | | | | | | | | |
| Personal property mortgage loans | 3,636 | 0.4 | 1.10 | 5,077 | 0.6 | 1.23 | 8,495 | 5.5 | 1.90 | 7,164 | 5.0 | 1.56 |
| Personal consumption loans | 552 | 0.1 | 0.74 | 1,681 | 0.2 | 2.36 | 2,321 | 1.5 | 3.61 | 2,696 | 1.9 | 3.88 |
| Bank card overdrafts | 89 | 0.0 | 3.11 | 95 | 0.0 | 3.10 | 95 | 0.1 | 2.77 | 111 | 0.1 | 2.83 |
| Subtotal | 4,277 | 0.5 | 1.05 | 6,853 | 0.8 | 1.41 | 10,911 | 7.1 | 2.12 | 9,971 | 7.0 | 1.87 |
| Overseas operations | 2,259 | 0.3 | 2.96 | 1,294 | 0.2 | 1.30 | 1,231 | 0.8 | 1.18 | 878 | 0.6 | 0.79 |
| Total non-performing loans | 824,648 | 100.0% | 24.24% | 784,656 | 100.0% | 21.16% | 154,417 | 100.0% | 4.69% | 142,030 | 100.0% | 4.10% |

(1) Calculated by dividing non-performing loans in each category by total loans in that category.

(2) The amounts of corporate loans reflect our restructuring-related disposal.

The overall improvement in the non-performing loan ratio of our total loan portfolio from December 31, 2003 to June 30, 2006 was primarily due to an improvement in the non-performing loan ratio of our corporate loan portfolio, together with an increase in the amount of discounted bills, the vast majority of which were bank acceptance bills, both in absolute terms and as a percentage of our loan portfolio. None of our discounted bills was classified as non-performing at June 30, 2006, December 31, 2005, 2004, and 2003.

The decrease in the non-performing loan ratio of our corporate loans was primarily due to the restructuring-related disposal. Apart from the impact of our restructuring-related disposal, the decrease in the non-performing loan ratio of our corporate loan portfolio was primarily due to a combination of the following factors: (i) the continued strengthening of our credit risk management policies and practices, including the introduction of policies on credit exposure by industry and geographical region

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and the launch of the CM2002 credit management system in April 2003; (ii) a decrease in our exposure—most of which had historically been in the form of short-term loans—to lower-rated borrowers; (iii) the positive impact on our non-performing loan ratio of the increase in loans newly made; and (iv) our increased efforts to recover on non-performing loans. The NPL ratio of our short-term corporate loans was 10.31% at June 30, 2006, which was primarily attributable to the high NPL ratio of our short-term Pre-existing Loans. Pre-existing Loans accounted for a majority of our non-performing short-term corporate loans at June 30, 2006.

Partly offsetting the improvement in our corporate loan portfolio and the increase in discounted bills was an increase in the non-performing loan ratio of our personal loan portfolio from December 31, 2003 to December 31, 2005. This was primarily due to a combination of (i) an increase in non-performing personal property mortgage loans resulting from both the seasoning of a series of loans made in 2000-2002 as a result of wrongful practices by certain property developers and the impact of the PRC government's macroeconomic control measures on the real estate industry, which led to delays in the completion of a number of property development projects and consequently to an increase in mortgage defaults among purchasers of properties in such projects and (ii) an increase in non-performing personal consumption loans, primarily attributable to auto loans, on which we experienced an increase in borrower defaults primarily as a result of a general decline in automobile prices. To a lesser extent, the increase in the non-performing loan ratio of personal property mortgage loans at December 31, 2005 from December 31, 2004 was attributable to the increase in prepayments on such loans, which had the effect of reducing the proportion of performing loans in our personal property mortgage loan portfolio at that date.

The non-performing loan ratio of our personal loan portfolio improved from December 31, 2005 to June 30, 2006 primarily due to improved non-performing loan ratio on our personal property mortgage loans, partially offset by increased non-performing loan ratios on our personal consumption loans and bank card overdrafts. The non-performing loan ratio on our personal property mortgage loans decreased primarily due to (i) the continued strengthening of our credit risk management policies and practices, including the launch of the PCM2003 personal credit management system in May 2006, (ii) increased write-offs, and (iii) increased recoveries. The decrease in personal loans classified as normal and increase in personal loans classified as special mention from December 31, 2005 to June 30, 2006, both in absolute terms and as a percentage of our personal loan portfolio, was primarily due to the introduction of a more prudent criterion for classifying personal property mortgage loans in connection with the launch of the PCM2003 system. See “—Distribution of Loans by Five-category Loan Classification.”

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Distribution of Non-performing Corporate Loans by Geographical Region

The following table sets forth, at the dates indicated, the distribution of our non-performing corporate loans by geographical region. For a description of our geographical regions, see “Definitions and Conventions.”

| | At December 31, | | | | | | | | | At June 30, | | |
|---|-----------------------|----------------------|--------------------------|-----------------------|----------------------|--------------------------|-----------------------|----------------------|--------------------------|-----------------------|----------------------|--------------------------|
| | 2003 | | | 2004 | | | 2005 | | | 2006 | | |
| | Amount | % of total | NPL ratio ⁽¹⁾ | Amount | % of total | NPL ratio ⁽¹⁾ | Amount ⁽²⁾ | % of total | NPL ratio ⁽¹⁾ | Amount | % of total | NPL ratio ⁽¹⁾ |
| (in millions of RMB, except percentages) | | | | | | | | | | | | |
| Head Office | 9,077 | 1.1% | 10.94% | 8,929 | 1.1% | 14.26% | 432 | 0.3% | 0.65% | 422 | 0.3% | 0.78% |
| Yangtze River Delta | 65,749 | 8.1 | 11.97 | 50,865 | 6.6 | 9.09 | 14,176 | 9.9 | 2.40 | 13,245 | 10.1 | 2.02 |
| Pearl River Delta | 98,877 | 12.1 | 25.71 | 99,411 | 12.8 | 25.39 | 21,422 | 15.1 | 6.53 | 19,634 | 15.0 | 5.55 |
| Bohai Rim | 134,368 | 16.4 | 28.61 | 116,854 | 15.0 | 24.15 | 24,742 | 17.4 | 5.82 | 24,247 | 18.5 | 5.44 |
| Central China | 178,542 | 21.8 | 38.40 | 170,729 | 22.0 | 33.73 | 20,025 | 14.1 | 5.86 | 18,582 | 14.1 | 5.20 |
| Northeastern China | 189,612 | 23.2 | 56.28 | 192,298 | 24.8 | 59.33 | 34,142 | 24.0 | 24.24 | 29,889 | 22.8 | 21.69 |
| Western China | 141,887 | 17.3 | 29.97 | 137,423 | 17.7 | 28.40 | 27,336 | 19.2 | 7.11 | 25,162 | 19.2 | 6.34 |
| Total corporate non-performing loans | <u>818,112</u> | <u>100.0%</u> | <u>29.62%</u> | <u>776,509</u> | <u>100.0%</u> | <u>27.62%</u> | <u>142,275</u> | <u>100.0%</u> | <u>6.25%</u> | <u>131,181</u> | <u>100.0%</u> | <u>5.47%</u> |

(1) Calculated by dividing non-performing corporate loans in each category by total corporate loans in that category.

(2) The amounts at December 31, 2005 reflect the restructuring-related disposal.

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Distribution of Non-performing Corporate Loans by Industry

The following table sets forth, at the dates indicated, the distribution of our non-performing corporate loans by industry.

| | At December 31, | | | | | | | | | At June 30, | | |
|---|-----------------|---------------|--------------------------|----------------|---------------|--------------------------|-----------------------|---------------|--------------------------|----------------|---------------|--------------------------|
| | 2003 | | | 2004 | | | 2005 | | | 2006 | | |
| | Amount | % of total | NPL ratio ⁽¹⁾ | Amount | % of total | NPL ratio ⁽¹⁾ | Amount ⁽²⁾ | % of total | NPL ratio ⁽¹⁾ | Amount | % of total | NPL ratio ⁽¹⁾ |
| (in millions of RMB, except percentages) | | | | | | | | | | | | |
| Manufacturing | | | | | | | | | | | | |
| Chemicals | 72,593 | 8.9% | 44.47% | 68,317 | 8.8% | 42.20% | 14,004 | 9.9% | 13.20% | 12,753 | 9.7% | 11.64% |
| Machinery | 114,011 | 13.9 | 61.25 | 99,376 | 12.8 | 57.09 | 15,202 | 10.7 | 18.53 | 11,979 | 9.1 | 14.96 |
| Iron and steel | 20,298 | 2.5 | 23.97 | 18,747 | 2.4 | 22.92 | 2,985 | 2.1 | 4.35 | 2,694 | 2.1 | 3.89 |
| Textiles and apparels | 79,072 | 9.7 | 63.62 | 70,819 | 9.1 | 60.71 | 8,730 | 6.1 | 14.74 | 7,566 | 5.8 | 11.91 |
| Metal processing | 36,340 | 4.4 | 42.51 | 30,559 | 3.9 | 38.03 | 4,485 | 3.2 | 8.33 | 4,289 | 3.3 | 7.20 |
| Petroleum processing | 2,962 | 0.3 | 7.00 | 2,850 | 0.4 | 6.66 | 691 | 0.5 | 1.55 | 718 | 0.5 | 1.40 |
| Automobile | 27,873 | 3.4 | 36.99 | 25,976 | 3.3 | 35.68 | 4,693 | 3.3 | 10.84 | 3,850 | 2.9 | 10.10 |
| Electronics | 17,783 | 2.2 | 30.98 | 16,154 | 2.1 | 29.15 | 2,772 | 1.9 | 7.33 | 3,287 | 2.5 | 8.66 |
| Cement | 34,387 | 4.2 | 55.00 | 33,453 | 4.3 | 54.82 | 7,319 | 5.1 | 22.45 | 6,028 | 4.6 | 19.11 |
| Others ⁽³⁾ | 115,917 | 14.2 | 44.58 | 111,543 | 14.4 | 51.53 | 20,598 | 14.5 | 15.34 | 19,912 | 15.2 | 15.67 |
| Subtotal | 521,236 | 63.7 | 45.67 | 477,794 | 61.5 | 44.94 | 81,479 | 57.3 | 12.30 | 73,076 | 55.7 | 10.94 |
| Transportation and logistics | 19,728 | 2.4 | 6.38 | 18,925 | 2.5 | 4.98 | 3,864 | 2.7 | 1.05 | 4,933 | 3.8 | 1.20 |
| Power generation and supplies | 9,708 | 1.2 | 4.89 | 11,012 | 1.4 | 4.22 | 6,118 | 4.3 | 2.18 | 6,227 | 4.7 | 2.00 |
| Retail, wholesale and catering | 178,760 | 21.8 | 51.74 | 179,433 | 23.1 | 70.20 | 29,293 | 20.6 | 11.02 | 26,114 | 19.9 | 9.15 |
| Property development | 31,580 | 3.9 | 15.53 | 29,867 | 3.8 | 14.42 | 9,945 | 7.0 | 5.13 | 9,708 | 7.4 | 4.47 |
| Education, hospitals and other non-profit organizations | 9,638 | 1.2 | 10.15 | 15,352 | 2.0 | 13.12 | 3,511 | 2.5 | 3.41 | 3,393 | 2.6 | 2.55 |
| Construction | 7,417 | 0.9 | 10.67 | 6,784 | 0.9 | 8.67 | 1,784 | 1.2 | 1.99 | 2,069 | 1.6 | 2.47 |
| Others ⁽⁴⁾ | 40,045 | 4.9 | 10.03 | 37,342 | 4.8 | 8.31 | 6,281 | 4.4 | 2.00 | 5,661 | 4.3 | 1.96 |
| Total corporate loans | 818,112 | 100.0% | 29.62% | 776,509 | 100.0% | 27.62% | 142,275 | 100.0% | 6.25% | 131,181 | 100.0% | 5.47% |

(1) Calculated by dividing non-performing corporate loans in each category by total corporate loans in that category.

(2) The amounts at December 31, 2005 reflect the restructuring-related disposal.

(3) Consists primarily of the pharmaceutical, food products, pulp and paper, beverage, and tobacco industries.

(4) Consists primarily of the data transmission, computer services and software, mining, and water works, environmental and administration of public facilities industries.

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Ten Largest Non-performing Borrowers

The following table sets forth, at June 30, 2006, our borrowers with the ten largest non-performing loan balances outstanding.

| At June 30, 2006 | | | | |
|--|------------------------------|------------------------------------|---|--------------|
| Industry | Amount | % of total non-performing loans | % of Net Capital Base ⁽¹⁾ | |
| (in millions of RMB, except percentages) | | | | |
| Borrower A | Property development | 742 | 0.52% | 0.20% |
| Borrower B | Transportation and logistics | 654 | 0.46 | 0.18 |
| Borrower C | Manufacturing | 616 | 0.43 | 0.17 |
| Borrower D | Manufacturing | 597 | 0.42 | 0.16 |
| Borrower E | Manufacturing | 592 | 0.42 | 0.16 |
| Borrower F | Manufacturing | 553 | 0.39 | 0.15 |
| Borrower G | Manufacturing | 529 | 0.37 | 0.14 |
| Borrower H | Manufacturing | 528 | 0.37 | 0.14 |
| Borrower I | Manufacturing | 526 | 0.37 | 0.14 |
| Borrower J | Manufacturing | 507 | 0.36 | 0.14 |
| Total | | 5,844 | 4.11% | 1.58% |

(1) Represents loan amounts as a percentage of our Net Capital Base, which consists of our core capital and supplementary capital less deductions, each calculated in accordance with CBRC statutory requirements under PRC GAAP. See “Regulation and Supervision—PRC Regulation and Supervision—Liquidity and Other Operational Ratios.” For a calculation of our Net Capital Base at June 30, 2006, see “Financial information—Capital Resources—Capital Adequacy.”

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Loan Aging Schedule

The following table sets forth, at the dates indicated, our loan aging schedule for our loans to customers. For the purposes of the following aging analysis, overdue loans are loans on which either the principal is overdue, or interest is overdue for more than 90 days. For installment loans, only the installments that are due but remain unpaid are treated as overdue.

| | At December 31, | | | | | | At June 30, | |
|--|------------------|---------------|------------------|---------------|-----------------------|---------------|------------------|---------------|
| | 2003 | | 2004 | | 2005 | | 2006 | |
| | Amount | % of total | Amount | % of total | Amount ⁽¹⁾ | % of total | Amount | % of total |
| (in millions of RMB, except percentages) | | | | | | | | |
| Domestic | | | | | | | | |
| Current loans | 2,575,845 | 75.7% | 2,830,706 | 76.4% | 3,018,597 | 91.7% | 3,203,657 | 92.5% |
| Loans past due for: | | | | | | | | |
| 1 to 90 days | 35,949 | 1.1 | 49,255 | 1.3 | 19,217 | 0.6 | 12,895 | 0.4 |
| 91 days to 180 days | 95,370 | 2.8 | 78,793 | 2.1 | 34,755 | 1.1 | 20,045 | 0.6 |
| 181 days or more | 618,696 | 18.2 | 649,751 | 17.5 | 112,586 | 3.4 | 113,056 | 3.3 |
| Subtotal | 3,325,860 | 97.8 | 3,608,505 | 97.3 | 3,185,155 | 96.8 | 3,349,653 | 96.8 |
| Overseas operations | | | | | | | | |
| Current loans | 73,326 | 2.2 | 97,212 | 2.7 | 103,167 | 3.2 | 110,532 | 3.2 |
| Loans past due for: | | | | | | | | |
| 1 to 90 days | 1,666 | 0.0 | 403 | 0.0 | 8 | 0.0 | 65 | 0.0 |
| 91 days to 180 days | 713 | 0.0 | 814 | 0.0 | 969 | 0.0 | 456 | 0.0 |
| 181 days or more | 712 | 0.0 | 814 | 0.0 | 254 | 0.0 | 374 | 0.0 |
| Subtotal | 76,417 | 2.2 | 99,243 | 2.7 | 104,398 | 3.2 | 111,427 | 3.2 |
| Total loans to customers | 3,402,277 | 100.0% | 3,707,748 | 100.0% | 3,289,553 | 100.0% | 3,461,080 | 100.0% |
| Loans overdue for 91 days or more | 715,491 | 21.0% | 730,172 | 19.6% | 148,564 | 4.5% | 133,931 | 3.9% |

(1) The amounts of loans past due at December 31, 2005 reflect the restructuring-related disposal.

Allowance for Impairment Losses on Loans to Customers

Since January 1, 2003, we have assessed our loans for impairment, determined a level of allowance for impairment losses, and recognized any related provisions made in a period using the concept of impairment under IAS 39. We individually assess for impairment our non-performing corporate loans and discounted bills (i.e., those classified as substandard, doubtful or loss) and non-performing corporate loans and discounted bills arising from our overseas operations. See “Financial Information—Critical Accounting Policies—Allowance for Impairment Losses on Loans.” The allowance for impairment losses on these loans is measured as the difference between the carrying amounts and the estimated recoverable amounts of the loans. The estimated recoverable amounts are the sum of the present value of the estimated future cash flows of the loans and the recoverable value of the collateral, up to the carrying amounts.

We collectively assess for impairment our personal loans and performing corporate loans and discounted bills (i.e., those classified as normal and special mention), and personal loans and performing corporate loans and discounted bills arising from our overseas operations. For purposes of collective assessment, we estimate the future recoverable amount on a group of loans on the basis of our historical loss experience on loans with similar credit risk characteristics. The historical loss

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experience is adjusted for current conditions to eliminate the impact of historical conditions that have ceased to have any current impact. See “Financial Information—Critical Accounting Policies—Allowance for Impairment Losses on Loans” and Note 16 to our financial information included in the Accountants’ Report in Appendix I to this prospectus.

The following table sets forth, at the dates indicated, the distribution by product type of our loans that were individually and collectively assessed for impairment.

| | At December 31, | | | | | | At June 30, | |
|--|-------------------------|----------------------|-------------------------|----------------------|-------------------------|----------------------|-------------------------|----------------------|
| | 2003 | | 2004 | | 2005 | | 2006 | |
| | Amount | % of total |
| (in millions of RMB, except percentages) | | | | | | | | |
| Collectively assessed | | | | | | | | |
| Corporate loans ⁽¹⁾ | 1,943,587 | 57.2% | 2,034,981 | 54.9% | 2,135,121 | 64.9% | 2,269,049 | 65.6% |
| 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 ⁽²⁾ | 74,158 | 2.1 | 97,949 | 2.6 | 103,167 | 3.1 | 110,549 | 3.2 |
| Subtotal | <u>2,581,906</u> | <u>75.9</u> | <u>2,929,945</u> | <u>79.0</u> | <u>3,146,047</u> | <u>95.6</u> | <u>3,329,021</u> | <u>96.2</u> |
| Individually assessed | | | | | | | | |
| Corporate loans ⁽³⁾ | 818,112 | 24.0 | 776,509 | 20.9 | 142,275 ⁽⁴⁾ | 4.3 | 131,181 | 3.8 |
| Overseas operations ⁽⁵⁾ | 2,259 | 0.1 | 1,294 | 0.1 | 1,231 | 0.1 | 878 | 0.0 |
| Subtotal | <u>820,371</u> | <u>24.1</u> | <u>777,803</u> | <u>21.0</u> | <u>143,506</u> | <u>4.4</u> | <u>132,059</u> | <u>3.8</u> |
| Total loans to customers | <u>3,402,277</u> | <u>100.0%</u> | <u>3,707,748</u> | <u>100.0%</u> | <u>3,289,553</u> | <u>100.0%</u> | <u>3,461,080</u> | <u>100.0%</u> |

(1) Consists of corporate loans classified as normal and special mention.

(2) Consists of all personal loans and performing corporate loans and discounted bills made by our overseas operations.

(3) Consists of corporate loans classified as substandard, doubtful and loss.

(4) Reflects the restructuring-related disposal.

(5) Consists of non-performing corporate loans and discounted bills made by our overseas operations.

For a description of our methodologies in calculating the estimated recoverable amount of loans, see “Financial Information—Critical Accounting Policies—Allowance for Impairment Losses on Loans.”

Our loans are reported net of the allowance for impairment losses on our consolidated balance sheet.

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Distribution of Allowance for Impairment Losses by Loan Classification

The following table sets forth, at the dates indicated, the allocation of the allowance for impairment losses by loan classification category.

| | At December 31, | | | | | | | | | At June 30, | | |
|---|-----------------|---------------|-----------------------------------|----------------|---------------|-----------------------------------|-----------------------|---------------|-----------------------------------|---------------|---------------|-----------------------------------|
| | 2003 | | | 2004 | | | 2005 | | | 2006 | | |
| | Amount | % of total | Allowance to loans ⁽¹⁾ | Amount | % of total | Allowance to loans ⁽¹⁾ | Amount ⁽²⁾ | % of total | Allowance to loans ⁽¹⁾ | Amount | % of total | Allowance to loans ⁽¹⁾ |
| (in millions of RMB, except percentages) | | | | | | | | | | | | |
| Domestic | | | | | | | | | | | | |
| Normal | 22,596 | 3.6% | 1.04% | 23,848 | 4.0% | 0.94% | 23,271 | 27.8% | 0.85% | 23,885 | 27.9% | 0.81% |
| Special mention . . | 5,638 | 0.9 | 1.75 | 6,177 | 1.0 | 2.06 | 6,512 | 7.8 | 2.17 | 7,490 | 8.7 | 2.73 |
| Substandard | 19,256 | 3.0 | 20.50 | 22,662 | 3.8 | 21.44 | 19,546 | 23.4 | 21.21 | 16,547 | 19.3 | 21.42 |
| Doubtful | 212,135 | 33.3 | 59.94 | 201,236 | 33.6 | 60.14 | 28,772 | 34.4 | 51.00 | 31,907 | 37.2 | 54.17 |
| Loss | 374,526 | 58.9 | 100.00 | 343,039 | 57.3 | 100.00 | 4,599 | 5.4 | 100.00 | 5,012 | 5.9 | 100.00 |
| Subtotal | <u>634,151</u> | <u>99.7</u> | <u>19.07</u> | <u>596,962</u> | <u>99.7</u> | <u>16.54</u> | <u>82,700</u> | <u>98.8</u> | <u>2.60</u> | <u>84,841</u> | <u>99.0</u> | <u>2.53</u> |
| Overseas operations | | | | | | | | | | | | |
| Performing | 694 | 0.1 | 0.94 | 794 | 0.1 | 0.81 | 416 | 0.5 | 0.40 | 468 | 0.5 | 0.42 |
| Non-performing . . | 1,377 | 0.2 | 60.96 | 801 | 0.2 | 61.90 | 576 | 0.7 | 46.79 | 429 | 0.5 | 48.86 |
| Subtotal | <u>2,071</u> | <u>0.3</u> | <u>2.71</u> | <u>1,595</u> | <u>0.3</u> | <u>1.61</u> | <u>992</u> | <u>1.2</u> | <u>0.95</u> | <u>897</u> | <u>1.0</u> | <u>0.81</u> |
| Total allowance for loans to customers | <u>636,222</u> | <u>100.0%</u> | <u>18.70%</u> | <u>598,557</u> | <u>100.0%</u> | <u>16.14%</u> | <u>83,692</u> | <u>100.0%</u> | <u>2.54%</u> | <u>85,738</u> | <u>100.0%</u> | <u>2.48%</u> |

(1) Calculated by dividing the amount of the allowance for impairment losses on loans in each category by the total amount of loans in that category.

(2) The amount of the allowance for impairment losses at December 31, 2005 reflects the RMB503.1 billion release from the allowance resulting from the restructuring-related disposal.

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The following table sets forth, at the dates indicated, the allocation of the allowance for impairment losses by business line and by loan classification category.

| | At December 31, | | | | | | | | | At June 30, | | |
|---|-----------------|---------------|-----------------------------------|----------------|---------------|-----------------------------------|-----------------------|---------------|-----------------------------------|---------------|---------------|-----------------------------------|
| | 2003 | | | 2004 | | | 2005 | | | 2006 | | |
| | Amount | % of total | Allowance to loans ⁽¹⁾ | Amount | % of total | Allowance to loans ⁽¹⁾ | Amount ⁽²⁾ | % of total | Allowance to loans ⁽¹⁾ | Amount | % of total | Allowance to loans ⁽¹⁾ |
| (in millions of RMB, except percentages) | | | | | | | | | | | | |
| Corporate loans | | | | | | | | | | | | |
| Normal | 18,305 | 2.9% | 1.13% | 18,165 | 3.0% | 1.04% | 18,361 | 21.9% | 0.99% | 19,000 | 22.2% | 0.94% |
| Special mention | 5,567 | 0.9 | 1.75 | 6,013 | 1.0 | 2.06 | 6,301 | 7.5 | 2.18 | 6,523 | 7.6 | 2.75 |
| Substandard | 19,043 | 3.0 | 20.49 | 22,193 | 3.7 | 21.45 | 18,923 | 22.7 | 21.32 | 16,040 | 18.7 | 21.48 |
| Doubtful | 210,314 | 33.0 | 59.97 | 198,385 | 33.2 | 60.11 | 25,373 | 30.3 | 51.77 | 28,243 | 32.9 | 54.75 |
| Loss | 374,503 | 58.9 | 100.00 | 342,988 | 57.3 | 100.00 | 4,524 | 5.4 | 100.00 | 4,934 | 5.8 | 100.00 |
| Subtotal | 627,732 | 98.7 | 22.73 | 587,744 | 98.2 | 20.91 | 73,482 | 87.8 | 3.23 | 74,740 | 87.2 | 3.11 |
| Discounted bills | | | | | | | | | | | | |
| Normal | 94 | 0.0 | 0.06 | 494 | 0.1 | 0.16 | 491 | 0.6 | 0.13 | 392 | 0.5 | 0.09 |
| Special mention | — | — | — | — | — | — | — | — | — | — | — | — |
| Substandard | — | — | — | — | — | — | — | — | — | — | — | — |
| Doubtful | — | — | — | — | — | — | — | — | — | — | — | — |
| Loss | — | — | — | — | — | — | — | — | — | — | — | — |
| Subtotal | 94 | 0.0 | 0.06 | 494 | 0.1 | 0.16 | 491 | 0.6 | 0.13 | 392 | 0.5 | 0.09 |
| Personal loans | | | | | | | | | | | | |
| Normal | 4,197 | 0.7 | 1.05 | 5,189 | 0.9 | 1.10 | 4,419 | 5.3 | 0.90 | 4,493 | 5.2 | 0.92 |
| Special mention | 71 | 0.0 | 1.62 | 164 | 0.0 | 2.13 | 211 | 0.3 | 1.91 | 967 | 1.1 | 2.62 |
| Substandard | 213 | 0.0 | 20.92 | 469 | 0.1 | 21.01 | 623 | 0.7 | 18.16 | 507 | 0.6 | 19.66 |
| Doubtful | 1,821 | 0.3 | 56.27 | 2,851 | 0.4 | 62.39 | 3,399 | 4.1 | 45.90 | 3,664 | 4.3 | 50.10 |
| Loss | 23 | 0.0 | 100.00 | 51 | 0.0 | 100.00 | 75 | 0.0 | 100.00 | 78 | 0.1 | 100.00 |
| Subtotal | 6,325 | 1.0 | 1.55 | 8,724 | 1.4 | 1.79 | 8,727 | 10.4 | 1.69 | 9,709 | 11.3 | 1.82 |
| Overseas operations | 2,071 | 0.3 | 2.71 | 1,595 | 0.3 | 1.61 | 992 | 1.2 | 0.95 | 897 | 1.0 | 0.81 |
| Total allowance for loans to customers | 636,222 | 100.0% | 18.70% | 598,557 | 100.0% | 16.14% | 83,692 | 100.0% | 2.54% | 85,738 | 100.0% | 2.48% |

(1) Calculated by dividing the amount of the allowance for impairment losses on loans in each category by the total amount of loans in that category.

(2) The amount of the allowance for impairment losses at December 31, 2005 reflected the RMB503.1 billion release from the allowance resulting from the restructuring-related disposal.

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Changes to the Allowance for Impairment Losses

The following table sets forth, for the periods indicated, the changes to the allowance for impairment losses on loans to customers.

| | <u>(in millions of RMB)</u> |
|---|-----------------------------|
| At December 31, 2002. | 640,245 |
| Net provision for the year | 34,914 |
| Accretion of interest on impaired loans ⁽¹⁾ | (9,844) |
| Transfers out ⁽²⁾ | (2,347) |
| Write-offs | <u>(26,746)</u> |
| At December 31, 2003 | 636,222 |
| Net provision for the year | 30,511 |
| Accretion of interest on impaired loans ⁽¹⁾ | (9,876) |
| Transfer in | 226 |
| Transfers out ⁽²⁾ | (7,450) |
| Write-offs | <u>(51,076)</u> |
| At December 31, 2004 | 598,557 |
| Net provision for the year | 26,589 |
| Accretion of interest on impaired loans ⁽¹⁾ | (8,349) |
| Transfers out ⁽³⁾ | (2,468) |
| Write-offs | (27,547) |
| Releases on disposal of non-performing loans ⁽⁴⁾ | <u>(503,090)</u> |
| At December 31, 2005 | 83,692 |
| Net provision for the period | 11,645 |
| Accretion of interest on impaired loans ⁽¹⁾ | (896) |
| Transfers out ⁽²⁾ | (1,857) |
| Write-offs | <u>(6,846)</u> |
| At June 30, 2006 | 85,738 |

(1) Represents the increase in the present value of loans after impairment that is due to the passage of time, which we recognize as interest income.

(2) Represents the transfer of non-performing loans to repossessed assets.

(3) Consists of (i) the transfer of non-performing loans to repossessed assets, and (ii) the transfer of a non-performing loan to investment securities through a debt-to-equity swap.

(4) The amount of the allowance for impairment losses released was credited to our capital reserve.

June 30, 2006 Compared to December 31, 2005. Our allowance for impairment losses at June 30, 2006 amounted to RMB85.7 billion, an increase of RMB2.0 billion or 2.4% from RMB83.7 billion at December 31, 2005, primarily due to the net provision for the period, partially offset by write-offs of non-performing loans.

2005 Compared to 2004. Our allowance for impairment losses at December 31, 2005 was RMB83.7 billion, a decrease of RMB514.9 billion, or 86.0%, from RMB598.6 billion at December 31, 2004. The decrease was primarily due to an RMB503.1 billion release from the allowance resulting from our restructuring-related disposal.

The net provision for the year decreased by RMB3.9 billion, or 12.9%, compared to 2004.

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2004 Compared to 2003. Our allowance for impairment losses at December 31, 2004 was RMB598.6 billion at December 31, 2004, a decrease of RMB37.6 billion, or 5.9%, from RMB636.2 billion at December 31, 2003. The decrease was primarily due to the impact of loan writing-offs, partially offset by the net provision for impairment losses. The decreases in the allowance resulting from loan write-offs amounted to RMB51.1 billion and related primarily to the write-off of non-performing corporate loans.

The net provision for the year decreased by RMB4.4 billion, or 12.6%, compared to 2003.

Distribution of Allowance for Impairment Losses by Product Type

The following table sets forth, at the dates indicated, the distribution of the allowance for impairment losses for our loans to customers by product type.

| | At December 31, | | | | | | At June 30, | |
|--|-----------------|----------------------------------|----------------|----------------------------------|-----------------------|----------------------------------|---------------|----------------------------------|
| | 2003 | | 2004 | | 2005 | | 2006 | |
| | Amount | Allowance to NPLs ⁽¹⁾ | Amount | Allowance to NPLs ⁽¹⁾ | Amount ⁽²⁾ | Allowance to NPLs ⁽¹⁾ | Amount | Allowance to NPLs ⁽¹⁾ |
| (in millions of RMB, except percentages) | | | | | | | | |
| Corporate loans | | | | | | | | |
| Collectively assessed | 23,872 | —% | 24,178 | —% | 24,662 | —% | 25,523 | —% |
| Individually assessed | | | | | | | | |
| Short-term loans | 455,862 | 72.43 | 415,346 | 70.89 | 37,963 | 34.68 | 37,831 | 38.51 |
| Medium- and long-term loans | 147,998 | 78.43 | 148,220 | 77.77 | 10,857 | 33.10 | 11,386 | 34.57 |
| of which: | | | | | | | | |
| Medium- and long-term property development loans | 10,706 | 58.45 | 11,537 | 58.63 | 1,841 | 31.74 | 1,660 | 26.39 |
| Syndicated loans | 107 | 37.94 | 147 | 59.51 | 98 | 47.34 | 85 | 55.92 |
| Subtotal | 603,860 | 73.81 | 563,566 | 72.58 | 48,820 | 34.31 | 49,217 | 37.52 |
| Total allowance for corporate loans | 627,732 | 76.73 | 587,744 | 75.69 | 73,482 | 51.65 | 74,740 | 56.97 |
| Discounted bills ⁽³⁾ | 94 | — | 494 | — | 491 | — | 392 | — |
| Personal loans ⁽⁴⁾ | 6,325 | 147.88 | 8,724 | 127.30 | 8,727 | 79.98 | 9,709 | 97.37 |
| Overseas operations | | | | | | | | |
| Collectively assessed | 694 | — | 794 | — | 416 | — | 468 | — |
| Individually assessed | 1,377 | 60.96 | 801 | 61.90 | 576 | 46.79 | 429 | 48.86 |
| Total allowance for overseas operations | 2,071 | 91.68 | 1,595 | 123.26 | 992 | 80.58 | 897 | 102.16 |
| Total allowance for loans to customers | 636,222 | 77.15% | 598,557 | 76.28% | 83,692 | 54.20% | 85,738 | 60.37% |

(1) For corporate loans, calculated by dividing the amount of the allowance for impairment losses on loans in each category by the amount of non-performing loans in that category. For personal loans, calculated by dividing the total amount of the allowance for impairment losses on personal loans by the amount of non-performing personal loans.

(2) The amount of the allowance for impairment losses at December 31, 2005 reflects the RMB503.1 billion release from the allowance resulting from the restructuring-related disposal.

(3) All discounted bills were classified as normal and thus collectively assessed for impairment.

(4) All personal loans were collectively assessed for impairment.

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Distribution of Allowance for Impairment Losses for Corporate Loans by Industry

The following table sets forth, at the dates indicated, the distribution of the allowance for impairment losses for our corporate loans by industry.

| | At December 31, | | | | | | | | | At June 30, | | |
|---|-----------------------|----------------------|----------------------------------|-----------------------|----------------------|----------------------------------|-----------------------|----------------------|----------------------------------|----------------------|----------------------|----------------------------------|
| | 2003 | | | 2004 | | | 2005 | | | 2006 | | |
| | Amount | % of total | Allowance to NPLs ⁽¹⁾ | Amount | % of total | Allowance to NPLs ⁽¹⁾ | Amount ⁽²⁾ | % of total | Allowance to NPLs ⁽¹⁾ | Amount | % of total | Allowance to NPLs ⁽¹⁾ |
| (in millions of RMB, except percentages) | | | | | | | | | | | | |
| Collectively assessed | 23,872 | 3.8% | —% | 24,178 | 4.1% | —% | 24,662 | 33.6% | —% | 25,523 | 34.1% | —% |
| Individually assessed | | | | | | | | | | | | |
| Manufacturing | | | | | | | | | | | | |
| Chemicals . . . | 54,073 | 8.6 | 74.49 | 48,592 | 8.3 | 71.13 | 5,224 | 7.1 | 37.30 | 4,838 | 6.5 | 37.94 |
| Machinery . . . | 79,448 | 12.7 | 69.68 | 68,467 | 11.6 | 68.90 | 5,784 | 7.9 | 38.05 | 4,931 | 6.6 | 41.16 |
| Iron and steel | 15,827 | 2.5 | 77.97 | 14,183 | 2.4 | 75.65 | 998 | 1.4 | 33.43 | 978 | 1.3 | 36.30 |
| Textiles and apparels . . . | 61,739 | 9.8 | 78.08 | 53,371 | 9.1 | 75.36 | 3,153 | 4.3 | 36.12 | 2,852 | 3.8 | 37.69 |
| Metal processing . | 26,734 | 4.3 | 73.57 | 22,035 | 3.7 | 72.11 | 1,543 | 2.1 | 34.40 | 1,743 | 2.3 | 40.64 |
| Petroleum processing . | 2,224 | 0.3 | 75.08 | 2,204 | 0.4 | 77.33 | 206 | 0.3 | 29.81 | 217 | 0.3 | 30.22 |
| Automobile . . | 18,872 | 3.0 | 67.71 | 17,841 | 3.1 | 68.68 | 1,539 | 2.1 | 32.79 | 1,391 | 1.9 | 36.13 |
| Electronics . . | 13,238 | 2.1 | 74.44 | 11,070 | 1.9 | 68.53 | 990 | 1.3 | 35.71 | 1,170 | 1.6 | 35.59 |
| Cement | 25,132 | 4.0 | 73.09 | 23,665 | 4.0 | 70.74 | 2,658 | 3.6 | 36.32 | 2,527 | 3.4 | 41.92 |
| Others ⁽³⁾ | 88,329 | 14.1 | 76.20 | 82,895 | 14.1 | 74.32 | 7,121 | 9.7 | 34.57 | 7,708 | 10.3 | 38.71 |
| Subtotal | <u>385,616</u> | <u>61.4</u> | <u>73.98</u> | <u>344,323</u> | <u>58.6</u> | <u>72.07</u> | <u>29,216</u> | <u>39.8</u> | <u>35.86</u> | <u>28,355</u> | <u>38.0</u> | <u>38.80</u> |
| Transportation and logistics | 13,269 | 2.1 | 67.26 | 12,787 | 2.2 | 67.57 | 916 | 1.2 | 23.71 | 2,313 | 3.1 | 46.89 |
| Power generation and supplies | 6,190 | 1.0 | 63.76 | 6,935 | 1.2 | 62.98 | 1,921 | 2.6 | 31.40 | 1,895 | 2.5 | 30.43 |
| Retail, wholesale and catering | 136,896 | 21.8 | 76.58 | 136,809 | 23.3 | 76.25 | 9,758 | 13.3 | 33.31 | 9,753 | 13.1 | 37.35 |
| Property development . . . | 20,251 | 3.2 | 64.13 | 19,608 | 3.3 | 65.65 | 3,012 | 4.1 | 30.29 | 2,914 | 3.9 | 30.02 |
| Education, hospitals and other non-profit organizations . . . | 6,347 | 1.0 | 65.85 | 9,969 | 1.7 | 64.94 | 1,227 | 1.7 | 34.95 | 1,121 | 1.5 | 33.04 |
| Construction | 5,288 | 0.9 | 71.30 | 5,037 | 0.8 | 74.25 | 563 | 0.7 | 31.56 | 681 | 0.9 | 32.91 |
| Others ⁽⁴⁾ | <u>30,003</u> | <u>4.8</u> | <u>74.92</u> | <u>28,098</u> | <u>4.8</u> | <u>75.25</u> | <u>2,207</u> | <u>3.0</u> | <u>35.14</u> | <u>2,185</u> | <u>2.9</u> | <u>38.60</u> |
| Subtotal | <u>603,860</u> | <u>96.2</u> | <u>73.81</u> | <u>563,566</u> | <u>95.9</u> | <u>72.58</u> | <u>48,820</u> | <u>66.4</u> | <u>34.31</u> | <u>49,217</u> | <u>65.9</u> | <u>37.52</u> |
| Total allowance for corporate loans | <u><u>627,732</u></u> | <u><u>100.0%</u></u> | <u><u>76.73%</u></u> | <u><u>587,744</u></u> | <u><u>100.0%</u></u> | <u><u>75.69%</u></u> | <u><u>73,482</u></u> | <u><u>100.0%</u></u> | <u><u>51.65%</u></u> | <u><u>74,740</u></u> | <u><u>100.0%</u></u> | <u><u>56.97%</u></u> |

- (1) Calculated by dividing the amount of the allowance for impairment losses on loans in each category by the amount of non-performing loans in that category.
- (2) The amount of the allowance for impairment losses at December 31, 2005 reflects the RMB503.1 billion release from the restructuring-related disposal.
- (3) Consists primarily of the pharmaceutical, food products, pulp and paper, beverage, and tobacco industries.
- (4) Consists primarily of the data transmission, computer services and software, mining, and water works, environmental and administration of public facilities industries.

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Distribution of Allowance for Impairment Losses for Corporate Loans by Geographical Region

The following table sets forth, at the dates indicated, the allocation of our allowance for impairment losses for our corporate loans by geographical region. For a description of our geographical regions, see “Definitions and Conventions.”

| | At December 31, | | | | | | | | | At June 30, | | |
|--|-----------------------|----------------------|----------------------------------|-----------------------|----------------------|----------------------------------|-----------------------|----------------------|----------------------------------|----------------------|----------------------|----------------------------------|
| | 2003 | | | 2004 | | | 2005 | | | 2006 | | |
| | Amount | % of total | Allowance to NPLs ⁽¹⁾ | Amount | % of total | Allowance to NPLs ⁽¹⁾ | Amount ⁽²⁾ | % of total | Allowance to NPLs ⁽¹⁾ | Amount | % of total | Allowance to NPLs ⁽¹⁾ |
| (in millions of RMB, except percentages) | | | | | | | | | | | | |
| Collectively assessed | 23,872 | 3.8% | —% | 24,178 | 4.1% | —% | 24,662 | 33.6% | —% | 25,523 | 34.1% | —% |
| Individually assessed | | | | | | | | | | | | |
| Head Office | 6,267 | 1.0 | 69.04 | 6,222 | 1.0 | 69.68 | 409 | 0.6 | 94.68 | 368 | 0.5 | 87.20 |
| Yangtze River | | | | | | | | | | | | |
| Delta | 41,694 | 6.7 | 63.41 | 31,000 | 5.3 | 60.95 | 4,485 | 6.1 | 31.64 | 4,431 | 5.9 | 33.45 |
| Pearl River | | | | | | | | | | | | |
| Delta | 71,657 | 11.4 | 72.47 | 69,169 | 11.8 | 69.58 | 6,986 | 9.5 | 32.61 | 7,150 | 9.6 | 36.42 |
| Bohai Rim | 93,028 | 14.8 | 69.23 | 80,344 | 13.7 | 68.76 | 7,680 | 10.5 | 31.04 | 8,074 | 10.8 | 33.30 |
| Central China . . . | 137,536 | 21.9 | 77.03 | 128,506 | 21.9 | 75.27 | 8,406 | 11.4 | 41.98 | 7,767 | 10.4 | 41.80 |
| Northeastern | | | | | | | | | | | | |
| China | 148,095 | 23.6 | 78.10 | 149,921 | 25.5 | 77.96 | 11,930 | 16.2 | 34.94 | 11,724 | 15.7 | 39.23 |
| Western China . . | 105,583 | 16.8 | 74.41 | 98,404 | 16.7 | 71.61 | 8,924 | 12.1 | 32.65 | 9,703 | 13.0 | 38.56 |
| Subtotal . . . | <u>603,860</u> | <u>96.2</u> | <u>73.81</u> | <u>563,566</u> | <u>95.9</u> | <u>72.58</u> | <u>48,820</u> | <u>66.4</u> | <u>34.31</u> | <u>49,217</u> | <u>65.9</u> | <u>37.52</u> |
| Total allowance for corporate loans . . . | <u><u>627,732</u></u> | <u><u>100.0%</u></u> | <u><u>76.73%</u></u> | <u><u>587,744</u></u> | <u><u>100.0%</u></u> | <u><u>75.69%</u></u> | <u><u>73,482</u></u> | <u><u>100.0%</u></u> | <u><u>51.65%</u></u> | <u><u>74,740</u></u> | <u><u>100.0%</u></u> | <u><u>56.97%</u></u> |

- (1) Calculated by dividing the amount of the allowance for impairment losses on corporate loans in each category by the amount of non-performing corporate loans in that category.
- (2) The amount of the allowance for impairment losses at December 31, 2005 reflects the RMB503.1 billion release from the restructuring-related disposal.

ASSETS AND LIABILITIES

Investment Securities

Our investment portfolio consists of listed and unlisted Renminbi- and foreign currency-denominated securities and other financial assets. Securities and other financial assets represented 37.7%, 35.7%, 24.3% and 22.9% of our total assets at June 30, 2006, December 31, 2005, 2004 and 2003, respectively. We classify our securities and other financial assets into (i) investments at fair value through profit or loss (primarily consisting of debt securities held for trading purposes), (ii) held-to-maturity securities, (iii) available-for-sale securities, and (iv) receivables. See Note 17 to our financial information included in the Accountants' Report in Appendix I to this prospectus. For presentation purposes in this section of the prospectus, we classify our securities into (i) debt instruments, (ii) receivables, and (iii) equity instruments, and we refer to our securities and other financial assets as our "investment securities," notwithstanding that a small portion of our securities and other financial assets are held for trading rather than investment purposes. The following table sets forth, at the dates indicated, the components of our investment securities.

| | At December 31, | | | | | | At June 30, | |
|------------------------------------|--|---------------|------------------|---------------|------------------|---------------|------------------|---------------|
| | 2003 | | 2004 | | 2005 | | 2006 | |
| | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| | (in millions of RMB, except percentages) | | | | | | | |
| Debt instruments ⁽¹⁾ | 636,268 | 60.9% | 824,443 | 67.0% | 1,225,924 | 53.2% | 1,573,612 | 59.2% |
| Receivables | 397,996 | 38.1 | 397,996 | 32.4 | 1,074,461 | 46.6 | 1,078,786 | 40.6 |
| Equity instruments ⁽²⁾ | 10,466 | 1.0 | 7,977 | 0.6 | 5,304 | 0.2 | 5,421 | 0.2 |
| Total investment securities | 1,044,730 | 100.0% | 1,230,416 | 100.0% | 2,305,689 | 100.0% | 2,657,819 | 100.0% |

(1) Consists of debt securities, which are accounted for in our financial information as debt securities at fair value through profit or loss, available-for-sale debt securities and held-to-maturity debt securities, and excludes debt-like obligations which are accounted for as receivables in our financial information.

(2) Accounted for in our financial information as available-for-sale and held-for-trading investments.

Our total investment securities increased by 15.3% to RMB2,657.8 billion at June 30, 2006 from RMB2,305.7 billion at December 31, 2005, primarily due to an increase in our holding of debt instruments.

Our total investment securities increased by 87.4% to RMB2,305.7 billion at December 31, 2005 from RMB1,230.4 billion at December 31, 2004, primarily because of the MOF receivable and special PBOC bill we received for the restructuring-related disposal, as well as an increase in our holdings of debt instruments. See "Our Restructuring and Operational Reform—Financial Restructuring."

Our total investment securities increased by 17.8% to RMB1,230.4 billion at December 31, 2004 from RMB1,044.7 billion at December 31, 2003 primarily due to an increase in our holdings of debt instruments as a result of increased funding from our customer deposits.

ASSETS AND LIABILITIES

Debt Instruments

Our debt instruments consist of listed and unlisted debt securities issued primarily by governments, central banks, policy banks, other banks and financial institutions, and corporations. Debt instruments represented 59.2%, 53.2%, 67.0% and 60.9% of our investment portfolio at June 30, 2006, December 31, 2005, 2004 and 2003, respectively. The following table sets forth, at the dates indicated, the debt instruments in our investment portfolio by type of instrument.

| | At December 31, | | | | | | At June 30, | |
|---|--|---------------|----------------|---------------|------------------|---------------|------------------|---------------|
| | 2003 | | 2004 | | 2005 | | 2006 | |
| | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| | (in millions of RMB, except percentages) | | | | | | | |
| Government bonds | 256,527 | 40.3% | 265,269 | 32.2% | 309,867 | 25.3% | 312,807 | 19.9% |
| Policy bank bonds | 218,696 | 34.4 | 260,870 | 31.6 | 306,350 | 25.0 | 349,747 | 22.2 |
| PBOC bills | 108,200 | 17.0 | 245,585 | 29.8 | 505,789 | 41.2 | 763,639 | 48.5 |
| Others ⁽¹⁾ | 52,845 | 8.3 | 52,719 | 6.4 | 103,918 | 8.5 | 147,419 | 9.4 |
| Total debt instruments | 636,268 | 100.0% | 824,443 | 100.0% | 1,225,924 | 100.0% | 1,573,612 | 100.0% |

(1) Consists of debt instruments issued by other financial institutions, corporate bonds and debt instruments issued by public entities.

Our debt instruments increased by 48.7% to RMB1,225.9 billion at December 31, 2005 from RMB824.4 billion at December 31, 2004, which increased by 29.6% from RMB636.3 billion at December 31, 2003. Our debt instruments further increased by 28.4% to RMB1,573.6 billion at June 30, 2006 from December 31, 2005. The increase in our debt instruments from December 31, 2003 to June 30, 2006 was primarily due to a significant increase in the balance of our holdings of PBOC bills and, to a lesser extent, increases in policy bank bonds and corporate bonds. Corporate bonds at June 30, 2006 consisted primarily of foreign currency-denominated bonds issued by non-PRC corporate entities, Renminbi-denominated senior and subordinated bonds issued by PRC commercial banks and Renminbi-denominated commercial paper issued by PRC corporate entities; at year-end 2003 and 2004, they consisted primarily of foreign currency-denominated bonds issued by non-PRC corporate entities and, to a lesser extent at year-end 2004, subordinated bonds issued by PRC commercial banks.

The overall increase in our debt instruments reflected increased funding from our customer deposits and an allocation of an increased portion of those funds to investment securities rather than loans. The increase in our holdings of PBOC bills primarily reflected the limited supply of PRC government bonds and policy bank bonds and the increased supply of PBOC bills.

The following table sets forth, at the dates indicated, our debt instruments and receivables by domicile of the issuer.

| | At December 31, | | | | | | At June 30, | |
|---|--|---------------|----------------|---------------|------------------|---------------|------------------|---------------|
| | 2003 | | 2004 | | 2005 | | 2006 | |
| | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| | (in millions of RMB, except percentages) | | | | | | | |
| PRC | 581,671 | 91.4% | 766,736 | 93.0% | 1,127,919 | 92.0% | 1,450,570 | 92.2% |
| Outside PRC | 54,597 | 8.6 | 57,707 | 7.0 | 98,005 | 8.0 | 123,042 | 7.8 |
| Total debt instruments | 636,268 | 100.0% | 824,443 | 100.0% | 1,225,924 | 100.0% | 1,573,612 | 100.0% |

ASSETS AND LIABILITIES

The overall increase in the amount of debt instruments issued by PRC issuers from December 31, 2003 to June 30, 2006 primarily reflected the increase in our investments in PBOC bills. The percentage of debt instruments issued by issuers outside the PRC increased to 7.8% at June 30, 2006 from 7.0% at December 31, 2004, primarily due to the increase in our foreign currency funding in connection with the Huijin capital contribution.

Receivables

Investment securities classified in the Accountants' Report as receivables are 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. Receivables represented 40.6%, 46.6%, 32.4% and 38.1% of our total investment securities at June 30, 2006, December 31, 2005, 2004 and 2003, respectively. The following table sets forth, at the dates indicated, the components of the receivables in our investment portfolio.

| | At December 31, | | | | | | At June 30, | |
|--|-----------------|---------------|----------------|---------------|------------------|---------------|------------------|---------------|
| | 2003 | | 2004 | | 2005 | | 2006 | |
| | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| (in millions of RMB, except percentages) | | | | | | | | |
| Huarong bonds | 312,996 | 78.6% | 312,996 | 78.6% | 312,996 | 29.1% | 312,996 | 29.0% |
| Special government bond | 85,000 | 21.4 | 85,000 | 21.4 | 85,000 | 7.9 | 85,000 | 7.9 |
| MOF receivable | — | — | — | — | 246,000 | 22.9 | 246,000 | 22.8 |
| Special PBOC bills | — | — | — | — | 430,465 | 40.1 | 434,790 | 40.3 |
| Total receivables | 397,996 | 100.0% | 397,996 | 100.0% | 1,074,461 | 100.0% | 1,078,786 | 100.0% |

Huarong bonds

We received a series of non-transferable bonds with an aggregate face value of RMB313.0 billion issued by Huarong in 2000 and 2001 as consideration for the disposal of certain non-performing assets. The Huarong bonds have terms of ten years and bear interest at an annual rate of 2.25%. The MOF has issued a notice providing support for the full repayment of principal and interest on the Huarong bonds. See “Our Restructuring and Operational Reform—Our History” and “Risk Factors—Risks Relating to Our Business—We are subject to certain risks relating to the bonds issued by Huarong.”

Special government bond

As part of the PRC government's efforts to improve the capital adequacy of the Big Four commercial banks, the MOF issued a RMB85.0 billion, 30-year special government bond to us and used the proceeds as a capital contribution to us in 1998. The bond bore an interest rate of 7.20% per annum prior to December 1, 2005. From the issuance date of the bond to November 30, 2005, we were required to make an annual payment to the government in the same amount as the annual interest accrued on the bond. Accordingly, the interest on this special government bond was effectively offset by the annual payment and no cash settlement was ever made between us and the MOF. As part of our financial restructuring, effective from December 1, 2005, we were no longer obligated to make the annual payment and the MOF began to pay interest on the bond at a reduced rate of 2.25% per annum. See “Our Restructuring and Operational Reform—Financial Restructuring—Amendment to the Terms of a Special Government Bond Issued by the MOF.”

ASSETS AND LIABILITIES

MOF receivable

In connection with our financial restructuring-related disposal of non-performing loans and certain other assets to the MOF, which designated Huarong to hold these assets, we recorded a special receivable in an amount of RMB246.0 billion from the MOF on May 27, 2005. Interest is payable on the outstanding amount of the MOF receivable at an annual rate of 3% from June 21, 2005. Together with the MOF, we established a jointly managed fund, which is obligated to repay to us over five years the principal of and the interest accrued on the MOF receivable. See “Our Restructuring and Operational Reform—Financial Restructuring—Disposal of Non-performing Assets” and “Financial Information—Financial Impact of Our Restructuring.”

Special PBOC bills

In connection with our financial restructuring-related disposal of non-performing loans, we used RMB430.5 billion of the proceeds from this disposal as consideration for a five-year special PBOC bill. See “Our Restructuring and Operational Reform—Financial Restructuring—Disposal of Non-performing Assets” and “Financial Information—Financial Impact of Our Restructuring.” The PBOC bill matures in June 2010 and bears interest at an annual rate of 1.89%.

In addition, at the request of the PBOC, we transferred a Huarong receivable in the amount of RMB4.3 billion at book value to the PBOC in June 2006. We used the entire proceeds from this transaction to purchase a special PBOC bill with a face value of RMB4.3 billion. This bill matures in June 2011 and bears interest at an annual rate of 1.89%.

Equity Instruments

The following table sets forth, at the dates indicated, the major components of our equity instruments.

| | 2003 | | At December 31, | | | | At June 30, | |
|---|-----------------------|---------------|-----------------------|---------------|-----------------------|---------------|-----------------------|---------------|
| | Amount ⁽¹⁾ | % of total | 2004 | 2005 | 2006 | | | |
| | Amount ⁽¹⁾ | % of total |
| (in millions of RMB, except percentages) | | | | | | | | |
| Debt-to-equity swap investments | 8,585 | 82.0% | 6,331 | 79.4% | 4,217 | 79.5% | 4,217 | 77.8% |
| Other equity investments | 1,881 | 18.0 | 1,646 | 20.6 | 1,087 | 20.5 | 1,204 | 22.2 |
| Total equity investments | 10,466 | 100.0% | 7,977 | 100.0% | 5,304 | 100.0% | 5,421 | 100.0% |

(1) Net of the allowance for impairment losses.

Our equity instruments primarily consist of equity holdings obtained through debt-to-equity swaps. Since 1999, we have acquired equity interests in certain large state-owned enterprises as a result of debt-to-equity swaps of loans made by us to those enterprises. The decrease in the amount of our debt-to-equity swap investments from December 31, 2003 to June 30, 2006 was primarily due to disposals of certain holdings, consistent with the government policy that such assets should be disposed of when conditions permit. In addition to debt-to-equity swap investments, we own equity investments in certain companies including financial institutions and equity interests in certain non-banking entities. See “Risk Factors—Risks Relating to Our Business—We are required to meet PRC and overseas regulatory requirements and guidelines and our non-compliance could result in fines, sanctions and other penalties.”

ASSETS AND LIABILITIES

Maturity Profile of Investment Securities

The following table sets forth, at June 30, 2006, the amount of our investment securities (excluding equity investments) by remaining maturity.

| | At June 30, 2006 | | | | |
|-----------------------------|---------------------------|-------------------------------|-----------------------------|--------------------------|-----------|
| | Due less than 3 months | Due between 3 to 12 months | Due between 1 to 5 years | Due more than 5 years | Total |
| (in millions of RMB) | | | | | |
| Debt instruments | | | | | |
| Government bonds | 9,121 | 25,325 | 226,031 | 52,330 | 312,807 |
| Policy bank bonds | 13,193 | 53,978 | 161,265 | 121,311 | 349,747 |
| PBOC bills | 242,524 | 452,744 | 68,371 | — | 763,639 |
| Others ⁽¹⁾ | 9,617 | 26,020 | 40,321 | 71,461 | 147,419 |
| Subtotal | 274,455 | 558,067 | 495,988 | 245,102 | 1,573,612 |
| Receivables | — | — | 993,786 | 85,000 | 1,078,786 |
| Total | 274,455 | 558,067 | 1,489,774 | 330,102 | 2,652,398 |

(1) Consists of debt instruments issued by other financial institutions, corporate bonds and debt instruments issued by public entities.

The proportion of our investment securities at June 30, 2006 consisting of instruments with a remaining maturity of one year or less primarily reflected our increased holdings in PBOC bills.

Carrying Value and Fair Value

All investment securities classified as available-for-sale and investments held for trading purposes are stated at market value. The following table sets forth, at the dates indicated, the carrying value and the fair value of the receivables and held-to-maturity securities in our investment portfolio.

| | At December 31, | | | | | | At June 30, | |
|--------------------------------------|-------------------|---------------|-------------------|---------------|-------------------|---------------|-------------------|---------------|
| | 2003 | | 2004 | | 2005 | | 2006 | |
| | Carrying value | Fair value | Carrying value | Fair value | Carrying value | Fair value | Carrying value | Fair value |
| (in millions of RMB) | | | | | | | | |
| Receivables | 397,996 | 397,996 | 397,996 | 397,996 | 1,074,461 | 1,074,461 | 1,078,786 | 1,078,786 |
| Held-to-maturity securities | 363,827 | 363,299 | 428,229 | 436,400 | 882,704 | 887,584 | 1,079,366 | 1,082,834 |

ASSETS AND LIABILITIES

Investment Concentration

The following table sets forth, at June 30, 2006, our investment securities whose carrying value exceeded 10% of our shareholders' equity.

| | At June 30, 2006 | | |
|--|------------------|----------------------------------|--|
| | Carrying value | % of total investment securities | % of total shareholders' equity ⁽¹⁾ |
| (in millions of RMB, except percentages) | | | |
| PBOC | 1,198,429 | 45.1% | 368.3% |
| of which: | | | |
| Special PBOC bills | 434,790 | 16.4 | 133.6 |
| MOF | 617,475 | 23.2 | 189.8 |
| of which: | | | |
| Special government bond | 85,000 | 3.2 | 26.1 |
| MOF receivable | 246,000 | 9.3 | 75.6 |
| Huarong | 312,996 | 11.8 | 96.2 |
| China Development Bank | 274,853 | 10.3 | 84.5 |
| Total | <u>2,403,753</u> | <u>90.4%</u> | <u>738.8%</u> |

(1) For a calculation of our total shareholders' equity, see "Financial Information—Capital Resources—Shareholders' Equity."

Other Components of Our Assets

Other components of our assets consist primarily of (i) cash and balances with central banks, (ii) amounts due from banks and other financial institutions, and (iii) amounts under reverse repurchase agreements.

Cash and balances with central banks consist of cash on hand; mandatory reserve deposits, which consist of statutory reserve deposits with the PBOC; surplus reserve deposits; and other restricted deposits. Statutory reserve deposits represent the minimum level of cash deposits, calculated as a percentage of the balance of our general deposits from customers, that we are required to maintain with the PBOC. Surplus reserve deposits primarily consist of deposits in our reserve accounts with the PBOC in excess of our statutory reserve deposits. The surplus reserve deposits with the PBOC may be used for settlement and other routine payment purposes. At June 30, 2006, cash and balances with central banks amounted to RMB598.3 billion, an increase of 8.0% from RMB553.9 billion at December 31, 2005, primarily reflecting an increase in our statutory reserve deposits in line with the continued increase in our customer deposits. The amount of cash and balances with central banks increased by 8.9% to RMB553.9 billion at December 31, 2005 from RMB508.6 billion at December 31, 2004, and increased by 11.1% at December 31, 2004 from RMB457.8 billion at December 31, 2003. These increases were primarily due to increases in our statutory reserve deposits, which primarily reflected both an increase in deposits from customers and the increases in the statutory reserve ratio required by the PBOC. See "Regulation and Supervision—PRC Regulation and Supervision—Statutory Reserve Deposit and Surplus Reserve Deposit."

Amounts due from banks and other financial institutions consist primarily of Renminbi-denominated and foreign currency-denominated inter-bank deposits and money-market placements with banks and other financial institutions. At June 30, 2006, amounts due from banks and other financial institutions, net of the allowance for impairment losses, remained effectively stable at RMB131.1 billion, compared to RMB132.2 billion at December 31, 2005. Amounts due from banks

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and other financial institutions, net of the allowance for impairment losses, increased by 90.4% to RMB132.2 billion at December 31, 2005 from RMB69.4 billion at December 31, 2004, primarily due to an increase in our money-market placements with banks operating outside the PRC to RMB105.2 billion at December 31, 2005 from RMB51.8 billion at December 31, 2004, reflecting the placement of a portion of the US\$15 billion Huijin capital contribution. Amounts due from banks and other financial institutions increased by 5.2% to RMB69.4 billion at December 31, 2004 from RMB66.0 billion at December 31, 2003, primarily due to an increase in our money-market placements with banks operating outside the PRC to RMB51.8 billion at December 31, 2004 from RMB49.3 billion at December 31, 2003. This increase primarily reflected an increase in our foreign currency deposits.

Amounts due under reverse repurchase agreements consist of purchases of assets under agreements to resell equivalent assets. At June 30, 2006, our amounts due under reverse repurchase agreements amounted to RMB105.5 billion, an increase of 18.3% from RMB89.2 billion at December 31, 2005, primarily reflecting the placement of funds in these short-term contracts at the end of June 2006 in anticipation of 50 basis points increase in the statutory reserve deposit ratio, which became effective on July 5, 2006. Amounts due under reverse repurchase agreements increased to RMB89.2 billion at December 31, 2005 from RMB21.8 billion at December 31, 2004, which decreased from RMB71.2 billion at December 31, 2003. These changes primarily reflected fluctuations in our short-term liquidity positions.

For a description of changes in the average balances of the amounts due from banks and other financial institutions, including amounts due under reverse repurchase agreements, for the three years ended December 31, 2005 and the six months ended June 30, 2005 and 2006, see “Financial Information—Results of Operations for the Years Ended December 31, 2005, 2004 and 2003—Net Interest Income—Interest Income—Interest Income from Amounts Due from Banks and Other Financial Institutions” and “Financial Information—Interim Results of Operations For the Six Months Ended June 30, 2006 and 2005—Net Interest Income—Interest Income—Interest Income from Amounts Due from Banks and Other Financial Institutions.”

LIABILITIES AND SOURCES OF FUNDS

At June 30, 2006, our total liabilities amounted to RMB6,725.2 billion, an increase of 8.5% from RMB6,196.3 billion at December 31, 2005. Our total liabilities increased by 11.1% to RMB6,196.3 billion at December 31, 2005 from RMB5,577.4 billion at December 31, 2004, which increased by 9.4% from RMB5,096.1 billion at December 31, 2003. Deposits from customers have historically been our primary source of funding and represented 91.0%, 92.6%, 92.8% and 92.4% of our total liabilities, at June 30, 2006, December 31, 2005, 2004 and 2003, respectively.

ASSETS AND LIABILITIES

The following table sets forth, at the dates indicated, the components of our total liabilities.

| | At December 31, | | | | | | At June 30, | |
|---|------------------|---------------|------------------|---------------|------------------|---------------|------------------|---------------|
| | 2003 | | 2004 | | 2005 | | 2006 | |
| | Amount | % of total |
| (in millions of RMB, except percentages) | | | | | | | | |
| Due to a central bank | 32,383 | 0.6% | 28,402 | 0.5% | — | —% | — | —% |
| Due to banks and other financial institutions | 219,009 | 4.3 | 205,695 | 3.7 | 232,910 | 3.8 | 367,218 | 5.4 |
| Repurchase agreements | 16,253 | 0.3 | 26,339 | 0.4 | 32,301 | 0.5 | 11,622 | 0.2 |
| Certificates of deposit | 3,376 | 0.1 | 3,680 | 0.1 | 5,704 | 0.1 | 6,991 | 0.1 |
| Due to customers | 4,706,861 | 92.4 | 5,176,282 | 92.8 | 5,736,866 | 92.6 | 6,119,038 | 91.0 |
| Debt issued | — | — | 3,294 | 0.1 | 38,076 | 0.6 | 37,987 | 0.6 |
| Other liabilities ⁽¹⁾ | 118,203 | 2.3 | 133,677 | 2.4 | 150,398 | 2.4 | 182,304 | 2.7 |
| Total liabilities | 5,096,085 | 100.0% | 5,577,369 | 100.0% | 6,196,255 | 100.0% | 6,725,160 | 100.0% |

(1) Consists of income tax payables, deferred income tax liabilities and other liabilities.

Customer Deposits

We provide demand and time deposit products to corporate and personal customers. The following table sets forth, at the dates indicated, the deposits from customers by product type and business line.

| | At December 31, | | | | | | At June 30, | |
|--|------------------|---------------|------------------|---------------|------------------|---------------|------------------|---------------|
| | 2003 | | 2004 | | 2005 | | 2006 | |
| | Amount | % of total |
| (in millions of RMB, except percentages) | | | | | | | | |
| Corporate deposits | | | | | | | | |
| Time | 481,565 | 10.2% | 579,338 | 11.2% | 705,564 | 12.3% | 845,797 | 13.8% |
| Demand | 1,532,662 | 32.6 | 1,654,146 | 32.0 | 1,778,145 | 31.0 | 1,853,931 | 30.3 |
| Subtotal | 2,014,227 | 42.8 | 2,233,484 | 43.2 | 2,483,709 | 43.3 | 2,699,728 | 44.1 |
| Personal deposits | | | | | | | | |
| Time | 1,805,565 | 38.3 | 1,939,337 | 37.5 | 2,102,800 | 36.6 | 2,230,596 | 36.5 |
| Demand | 775,333 | 16.5 | 870,897 | 16.8 | 1,003,498 | 17.5 | 1,048,135 | 17.1 |
| Subtotal | 2,580,898 | 54.8 | 2,810,234 | 54.3 | 3,106,298 | 54.1 | 3,278,731 | 53.6 |
| Overseas deposits | 40,750 | 0.9 | 64,022 | 1.2 | 68,920 | 1.2 | 87,328 | 1.4 |
| Other deposits ⁽¹⁾ | 70,986 | 1.5 | 68,542 | 1.3 | 77,939 | 1.4 | 53,251 | 0.9 |
| Total customer deposits | 4,706,861 | 100.0% | 5,176,282 | 100.0% | 5,736,866 | 100.0% | 6,119,038 | 100.0% |

(1) Consists of fiscal deposits and remittances.

At June 30, 2006, our total deposits amounted to RMB6,119.0 billion, an increase of 6.7% from RMB5,736.9 billion at December 31, 2005, in line with the continued increase in our customer deposits in 2003-2005. Our total deposits increased by 10.8% to RMB5,736.9 billion at December 31, 2005 from RMB5,176.3 billion at December 31, 2004, which increased by 10.0% from RMB4,706.9 billion at December 31, 2003. A greater proportion of our personal deposits consists of time deposits, which bear higher interest rates than demand deposits. A greater proportion of our corporate deposits consists of demand deposits primarily because our corporate customers often maintain demand deposit

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accounts to meet their potential liquidity requirements, notwithstanding lower interest yields. The general increase in each category of our customer deposits reflected increased wealth in the PRC arising from the continued growth of the PRC economy and relatively limited alternative investment opportunities for our customers.

Distribution of Deposits by Geographical Region

We classify deposits geographically based on the location of the branch taking the deposit. There is generally a high correlation between the location of the depositor and the location of the branch taking the deposit. The following table sets forth, at the dates indicated, the distribution of our deposits from customers by geographical region.

| | At December 31, | | | | | | At June 30, | |
|--|--|---------------|------------------|---------------|------------------|---------------|------------------|---------------|
| | 2003 | | 2004 | | 2005 | | 2006 | |
| | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| | (in millions of RMB, except percentages) | | | | | | | |
| Head Office | 40,271 | 0.9% | 80,061 | 1.5% | 73,317 | 1.3% | 86,702 | 1.4% |
| Yangtze River Delta | 924,078 | 19.6 | 1,021,123 | 19.7 | 1,150,194 | 20.0 | 1,235,828 | 20.2 |
| Pearl River Delta | 675,489 | 14.4 | 713,036 | 13.8 | 785,937 | 13.7 | 820,323 | 13.4 |
| Bohai Rim | 1,189,460 | 25.2 | 1,310,384 | 25.4 | 1,524,750 | 26.6 | 1,648,545 | 26.9 |
| Central China | 658,715 | 14.0 | 726,017 | 14.0 | 796,921 | 13.9 | 842,993 | 13.8 |
| Northeastern China | 438,162 | 9.3 | 451,426 | 8.7 | 476,559 | 8.3 | 492,739 | 8.1 |
| Western China | 739,936 | 15.7 | 810,213 | 15.7 | 860,268 | 15.0 | 904,580 | 14.8 |
| Overseas | 40,750 | 0.9 | 64,022 | 1.2 | 68,920 | 1.2 | 87,328 | 1.4 |
| Total deposits from customers | 4,706,861 | 100.0% | 5,176,282 | 100.0% | 5,736,866 | 100.0% | 6,119,038 | 100.0% |

Distribution of Deposits by Remaining Maturity

The following table sets forth, at the dates indicated, the distribution of our deposits, including certificates of deposit, from customers by remaining maturity.

| | At December 31, | | | | | | At June 30, | |
|-------------------------------|--|---------------|------------------|---------------|------------------|---------------|------------------|---------------|
| | 2003 | | 2004 | | 2005 | | 2006 | |
| | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| | (in millions of RMB, except percentages) | | | | | | | |
| Repayable on demand | 2,390,291 | 50.8% | 2,611,723 | 50.5% | 2,878,156 | 50.2% | 2,974,356 | 48.5% |
| Less than 3 months | 873,388 | 18.5 | 991,887 | 19.1 | 1,098,275 | 19.1 | 1,094,353 | 17.9 |
| 3 months to 1 year | 1,145,286 | 24.3 | 1,239,422 | 23.9 | 1,357,413 | 23.6 | 1,508,173 | 24.6 |
| 1 to 5 years | 297,593 | 6.3 | 333,025 | 6.4 | 403,898 | 7.0 | 543,266 | 8.9 |
| More than 5 years | 3,679 | 0.1 | 3,905 | 0.1 | 4,828 | 0.1 | 5,881 | 0.1 |
| Total | 4,710,237 | 100.0% | 5,179,962 | 100.0% | 5,742,570 | 100.0% | 6,126,029 | 100.0% |

Other Components of Our Liabilities

Other components of our liabilities primarily include (i) amounts due to a central bank, (ii) amounts due to banks and other financial institutions, (iii) amounts due on repurchase agreements, (iv) certificates of deposit, and (v) debt issued.

ASSETS AND LIABILITIES

Amounts due to a central bank consisted primarily of amounts arising from certain policy loans made through us by the PBOC, which had been completely repaid by December 31, 2005.

Amounts due to banks and other financial institutions consist primarily of Renminbi-denominated deposits by banks and other financial institutions. At June 30, 2006, our amounts due to banks and other financial institutions increased by 57.7% to RMB367.2 billion at June 30, 2006 from RMB232.9 billion at December 31, 2005, primarily attributable to an increase in Renminbi-denominated inter-bank deposits received from securities firms in our securities clearing business, reflecting the resumption of public equity offerings in the PRC in May of 2006, which was suspended by the CSRC in 2005. Amounts due to banks and other financial institutions increased by 13.2% to RMB232.9 billion at December 31, 2005 from RMB205.7 billion at December 31, 2004, which decreased by 6.1% from RMB219.0 billion at December 31, 2003. These changes reflected normal fluctuations in inter-bank deposits.

Amounts due on repurchase agreements consist primarily of sales of assets under agreements to repurchase equivalent assets. We generally enter into Renminbi-denominated repurchase contracts at year-end, when we have greater liquidity needs than at other times of the year. As a result, amounts under repurchase agreements decreased by 64.0% to RMB11.6 billion at June 30, 2006 from RMB32.3 billion at December 31, 2005. Amounts due on repurchase agreements increased by 22.6% to RMB32.3 billion at December 31, 2005 from RMB26.3 billion at December 31, 2004, which increased by 62.1% from RMB16.3 billion at December 31, 2003. These changes reflected normal fluctuations in our short-term liquidity positions.

Certificates of deposit consist of foreign currency-denominated certificates of deposit issued by one of our overseas subsidiaries, ICBC (Asia). At June 30, 2006, certificates of deposit increased by 22.6% to RMB7.0 billion at June 30, 2006 from RMB5.7 billion at December 31, 2005. Certificates of deposit increased by 55.0% to RMB5.7 billion at December 31, 2005 from RMB3.7 billion at December 31, 2004, which increased by 9.0% from RMB3.4 billion at December 31, 2003. The increase in certificates of deposit from December 31, 2003 to June 30, 2006 reflected our efforts to increase our funding in foreign currencies.

Debt issued consists of subordinated bonds and U.S. dollar-denominated notes payable. We recorded our U.S. dollar-denominated notes at fair value. Debt issued remained effectively stable at June 30, 2006, compared to December 31, 2005. Debt issued increased to RMB38.1 billion at December 31, 2005 from RMB3.3 billion at December 31, 2004, primarily due to our issuance of subordinated bonds in the aggregate principal amount of RMB35.0 billion to strengthen our supplementary capital. Debt issued increased to RMB3.3 billion at December 31, 2004 from nil at December 31, 2003, reflecting the issuance of notes in an aggregate principal amount of US\$400 million by ICBCA (C.I.) Limited, a subsidiary of ICBC (Asia).