The following discussion and analysis should be read in conjunction with the Accountants' Report in Appendix I, the Unaudited Interim Financial Information in Appendix II, the Unaudited Supplementary Financial Information in Appendix III and the Unaudited Pro Forma Financial Information in Appendix IV, in each case together with the accompanying notes. Our consolidated financial statements and notes as of and for the years ended December 31, 2010, 2011 and 2012 and as of and for the six months ended June 30, 2013, have been audited and prepared in accordance with IFRS and are included in Appendix I. The Unaudited Interim Financial Information has also been prepared in accordance with IFRS.

The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results may differ from those anticipated in these forward-looking statements as a result of any number of factors, including those set forth in the sections headed "Forward-Looking Statements" and "Risk Factors." Capital adequacy ratios discussed in this section are calculated in accordance with applicable CBRC guidelines.

OVERVIEW

We are a National Joint Stock Commercial Bank committed to establishing ourselves as one of the most innovative commercial banks in China. As of December 31, 2010, 2011 and 2012 and June 30, 2013, (i) our total assets were RMB1,484.0 billion, RMB1,733.3 billion, RMB2,279.3 billion and RMB2,471.2 billion, respectively; (ii) our total loans and advances to customers were RMB778.8 billion, RMB889.8 billion, RMB1,023.2 billion, and RMB1,104.6 billion, respectively; and (iii) our total deposits from customers were RMB1,063.2 billion, RMB1,225.3 billion, RMB1,426.9 billion and RMB1,554.7 billion, respectively. For the years ended December 31, 2010, 2011 and 2012 and for the six months ended June 30, 2013, our net profit was RMB12,794 million, RMB18,085 million, RMB23,620 million and RMB14,939 million, respectively. From 2010 to 2012, our total assets, total loans and advances to customers, total deposits from customers and net profit grew at a CAGR of 23.9%, 14.6%, 15.9% and 35.9%, respectively.

GENERAL FACTORS AFFECTING OUR RESULTS OF OPERATIONS

China's Economic Conditions

Our results of operations and financial condition are significantly affected by China's economic conditions and the economic measures undertaken by the PRC government. China has experienced rapid economic growth over the past three decades. From 2007 to 2012, China's nominal GDP grew at a CAGR of 14.3%, and fixed asset investments increased at a CAGR of 22.3%, according to the NBSC. In addition, total RMB-denominated loans and deposits increased at a CAGR of 19.2% and 18.7%, respectively, from 2007 to 2012, according to data from the PBOC. The growth of China's economy has led to increased corporate activities as well as significant increases in personal wealth, with per capita annual disposable income of urban residents increasing at a CAGR of 12.3%, from 2007 to 2012, according to the NBSC. Increased levels of corporate activities and personal wealth have generally led to a rapid growth in the banking business in China.

In recent years, the PRC government has implemented a series of macroeconomic and monetary policies, including, among others, adjusting the benchmark interest rate and the required deposit reserve ratio applicable to commercial banks, imposing lending limits on commercial banks that had the effect of restricting loan growth, imposing restrictions on residential mortgage loans and loans to property developers to cool down the overheating of the property market and promulgating industry development guidelines to promote growth in certain industries or control the overheating and over-capacity in certain other industries. These macroeconomic and monetary policies have a significant impact on our lending activities, business growth, results of operations and financial condition.

Bank lending in China grew at a high rate in 2010, 2011 and 2012. According to the PBOC, China's broad money supply (M2) increased by 14.4% in 2012 and loan balances of financial institutions increased by RMB9.1 trillion to RMB67.3 trillion in the same year. The overall increase in bank loans has imposed strains on the capital adequacy levels of many banks. Increased lending also requires PRC banks to make additional allowance for loan losses and gives rise to a need to further strengthen risk management. Since the second half of 2008, in response to the global financial crisis and economic slowdown, the PRC government has moderately loosened monetary policies which resulted in the narrowing interest spread and, in turn, depressed the net interest margin of many banks, including us. Partly driven by the improving general economic condition and increased liquidity, China's capital markets have gradually picked up since the second half of 2010, although significant price fluctuations continue to exert pressures on the sustainability of the recovery of China's capital markets. From October 2010 to July 2011, the PRC government tightened liquidity through multiple increases of the PBOC benchmark interest rate and the required deposit reserve ratio for banks. China has experienced a slowdown in overall economic growth since October 2011, partly due to the European sovereign debt crisis. In response to the changing economic conditions, the PBOC has recently made further adjustments to monetary policies and lowered the required deposit reserve ratio and the PBOC benchmark interest rate multiple times from February 2012 to July 2012.

Interest Rate Environment

Our results of operations depend to a large extent on our net interest income. For the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, our net interest income accounted for 85.2%, 85.4%, 83.7% and 77.0% of our total operating income, respectively. Historically, interest rates on deposits and loans were subject to strict restrictions established by the PBOC. In recent years, as part of the overall reform of the banking system, the PBOC has implemented a series of initiatives designed to gradually liberalize inter-bank market interest rates, bond market interest rates and interest rates of foreign currency deposits, as well as lowered the interest rate floor of RMB-denominated loans and raised the interest rate ceiling of RMB-denominated deposits. In early 2007, the SHIBOR announced by the National Interbank Funding Center officially commenced operation, and a market interest rate system based on SHIBOR is taking shape gradually.

The PBOC has gradually increased the use of market-oriented interest rate policy to regulate the market, including raising the benchmark RMB lending rates for financial institutions nine consecutive times and benchmark RMB deposit rates for financial institutions eight consecutive times from October 2004 to December 2007, and, subsequently, based on changes in the macroeconomic conditions, significantly lowering the benchmark RMB deposit and lending rates for financial institutions several times in the second half of 2008. In recent years, the PBOC has adjusted the benchmark interest rate several times. From October 2010 to July 2011, the PBOC increased the benchmark interest rates for one-year deposits and loans five times to 3.50% and 6.56%, respectively. During June and July 2012, the PBOC lowered the benchmark interest rates for one-year deposits and loans twice to 3.00% and 6.00%, respectively. The PBOC has also recently liberalized the interest rate restrictions on deposits and loans. Effective on June 8, 2012, the PBOC allows commercial banks to set deposit rates at up to 110% of the PBOC benchmark deposit interest rate. Effective on July 20, 2013, the PBOC removed the lower limit for new loans provided by commercial banks, except for new residential mortgage loans, for which the lower limit is set at 70% of the PBOC benchmark lending interest rate.

In October 2008, the PBOC also announced a policy to permit qualified residential mortgage loans to be priced below the applicable benchmark lending rates by up to 30%. On January 27, 2011, the State Council promulgated the Notice of the General Office of the State Council on Issues Concerning Further Regulating and Controlling of Real Estate Market (國務院辦公廳關於進一步做好房地產市場調控工作有關問題的通知), which requires a family purchasing a second residential property and any subsequent residential property to make a down payment of no less than 60% of the purchase price and the lending interest rate shall not be lower than 110% of the benchmark lending interest rates.

Going forward, the PBOC may further liberalize the existing interest rate regime on RMB-denominated loans and deposits. In this respect, we expect to face greater pricing pressure as compared to Large Commercial Banks. As the PRC government continues its policy of interest rate liberalization, we expect inter-bank competition to continue to play an increasingly important role in the pricing of interest rates, which may adversely affect our net interest income and results of operations.

Exchange Rate Environment

The value of Renminbi is influenced by the PRC's political and economic conditions. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong dollars and U.S. dollars, has been based on rates set by the PBOC, and the PBOC determines the rate on a daily basis based on the inter-bank foreign exchange market rates of the preceding working day and the prevailing foreign exchange rates on the international financial market. From 1994 to July 20, 2005, the official exchange rate for the conversion of Renminbi to U.S. dollars was generally stable. On July 21, 2005, the PRC government permitted Renminbi to fluctuate within a monitored band based on market supply and demand and with reference to a basket of foreign currencies. From July 21, 2005 to December 31, 2012, the cumulative appreciation of Renminbi against the U.S. dollar was 32.3%. In June 2010, in view of economic and financial developments in China and abroad, particularly China's balance of payments situation, the PBOC decided to further reform the RMB exchange rate regime and increase the flexibility of the RMB exchange rate. In April 2012, the PBOC increased the daily floating range of the exchange rates of Renminbi against the U.S. dollar from 0.5% to 1%. If the Renminbi appreciates (or depreciates) against the U.S. dollar or other currencies, it may lead to foreign exchange losses (or gains) on our foreign currency-denominated assets and liabilities, respectively.

Changes in China's Regulatory Environment

Our business and results of operations are materially affected by changes in policies, laws and regulations relating to the PRC banking industry, including the extent to which we can engage in certain businesses, activities or charge fees. Commercial banks in China are mainly regulated by the PBOC and the CBRC. However, they are also subject to the supervision and regulation of other regulatory authorities including the SAFE, the CSRC and the CIRC. The PBOC is responsible for formulating and implementing monetary policies and the CBRC is responsible for supervising and regulating banking institutions. In addition to benchmark interest rates, the PBOC sets deposit reserve ratio requirements, extends loans and provides re-discounted bills to commercial banks and conducts open market operations, all of which affect liquidity and market interest rates.

In addition to requiring enhanced disclosure, improved corporate governance and more prudent scrutinization of assets, the CBRC has the authority to supervise capital measurement and capital adequacy of the PRC commercial banks. In December 2010, the Basel Committee officially issued Basel III. In light of the implications of Basel III, on April 27, 2011, the CBRC issued new guidelines setting more stringent capital adequacy, leverage, liquidity and loan loss provisioning requirements for PRC banks in accordance with the reform of China's banking industry and regulatory framework. On June 7, 2012, the CBRC further promulgated the Rules Governing Capital Management of Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)), which became effective on January 1, 2013 and requires commercial banks to fulfill all relevant capital regulatory requirements by the end of 2018. In addition, on November 30, 2012, the CBRC released the Notification on Matters Related to the Implementation of the Rules Governing Capital

Management of Commercial Banks (Provisional) in Transitional Period (關於實施《商業銀行資本管理辦法(試行)》過渡期安排相關事項的通知). See "Supervision and Regulation – PRC Banking Supervision and Regulation – Supervision Over Capital Adequacy."

The PBOC and the CBRC have implemented a series of initiatives to gradually allow the development and introduction of new fee- and commission-based banking services and financial instruments that banks may offer or in which they may invest. For example, the PBOC and the CBRC have given approval for enterprises to issue commercial paper, thereby promoting the gradual development of such market. The discounted bills market has also grown rapidly in recent years. In addition, the developments in China's capital markets have also broadened the scope of our investable securities, such as corporate bonds and asset-backed securities, which generally offer higher yields than traditional investments, such as PBOC bills. The developments in China's capital markets have allowed us to expand our fee- and commission-based business, including underwriting commercial paper and wealth management services.

In addition, changes to tax laws and regulations may affect our tax expenses and results of operation.

The Competitive Landscape in China's Banking Industry

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

We may also face competition for funding from other investment alternatives as China's capital markets continue to develop. For example, when China's stock markets experience a significant increase, the growth in our time deposits from customers may slow down, reflecting their preference for alternative investments to seek higher returns.

FINANCIAL DISCLOSURES AFTER GLOBAL OFFERING

As a company with A Shares listed on the Shanghai Stock Exchange, we are required to publish quarterly financial information. We confirm that our quarterly financial information (in both English and Chinese) will also be released in Hong Kong simultaneously pursuant to Rule 13.10B of the Listing Rules subsequent to our listing on the Hong Kong Stock Exchange. Subsequent to our listing on the Hong Kong Stock Exchange, we will simultaneously publish annual, interim and quarterly financial information under PRC GAAP for A Share disclosure purposes and under IFRS for H Share disclosure purposes.

RESULTS OF OPERATIONS

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

	For the year ended December 31,			For the six months ended June 30,	
	2010	2011	2012	2012	2013
				(unaudited)	
	(in millions of RMB)				
Interest income	54,156	77,884	103,971	50,736	58,368
Interest expense	(23,733)	(38,444)	(53,708)	(25,428)	(32,314)
Net interest income	30,423	39,440	50,263	25,308	26,054
Fee and commission income	5,081	7,381	9,994	5,163	7,666
Fee and commission expense	(372)	(408)	(515)	(225)	(317)
Net fee and commission income	4,709	6,973	9,479	4,938	7,349
Other net income/(loss)(1)	596	(215)	328	285	435
Operating income	35,728	46,198	60,070	30,531	33,838
Operating expenses(2)	(15,126)	(18,289)	(22,685)	(10,802)	(12,160)
Impairment losses on assets	(3,491)	(3,698)	(5,795)	(2,439)	(2,250)
Profit before tax	17,111	24,211	31,590	17,290	19,428
Income tax	(4,317)	(6,126)	(7,970)	(4,354)	(4,489)
Net profit	**12,794**	**18,085**	**23,620**	**12,936**	**14,939**

Notes:

(1) Consists of net trading gain/(loss), net gain/(loss) arising from investment securities, net foreign exchange gain/(loss), dividend income and other operating income.

(2) Consist of staff costs, other general and administrative expenses, business tax and surcharges, depreciation and amortization as well as rental and property management expenses.

Our net profit increased by 15.5% to RMB14,939 million for the six months ended June 30, 2013 compared to RMB12,936 million for the six months ended June 30, 2012, primarily due to increases in interest income and net fee and commission income, partially offset by increases in our interest expense and operating expenses.

Our net profit increased by 30.6% to RMB23,620 million for the year ended December 31, 2012 compared to RMB18,085 million for the year ended December 31, 2011, primarily due to increases in our interest income, net fee and commission income and other net income, partially offset by increases in our interest expense, operating expenses, impairment losses on assets and income tax.

Our net profit increased by 41.4% to RMB18,085 million for the year ended December 31, 2011 compared to RMB12,794 million for the year ended December 31, 2010, primarily due to increases in interest income and net fee and commission income, partially offset by increases in our interest expense, operating expenses, income tax and impairment losses on assets, as well as other net loss incurred in the year ended December 31, 2011.

Six Months Ended June 30, 2012 Compared to Six Months Ended June 30, 2013

Net Interest Income

Net interest income is the largest component of our operating income, representing 82.9% and 77.0% of our operating income for the six months ended June 30, 2012 and 2013, respectively.

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

	For the six months ended June 30,	
	2012	2013
	(unaudited)	
	(in millions of RMB)	
Interest income	50,736	58,368
Interest expense	(25,428)	(32,314)
Net interest income	**25,308**	**26,054**

Our net interest income increased by 2.9% to RMB26,054 million for the six months ended June 30, 2013 compared to RMB25,308 million for the six months ended June 30, 2012, as a result of a 15.0% increase in our interest income to RMB58,368 million for the six months ended June 30, 2013 compared to RMB50,736 million for the six months ended June 30, 2012, partially offset by a 27.1% increase in our interest expense to RMB32,314 million for the six months ended June 30, 2013 compared to RMB25,428 million for the six months ended June 30, 2012.

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

	For the six months ended June 30,					
	2012			2013		
	Average balance[7]	Interest income	Average yield[8]	Average balance[7]	Interest income	Average yield[8]
		(unaudited)				
	(in millions of RMB, except percentages)					
Assets						
Loans and advances to customers	942,023	32,008	6.80%	1,102,439	34,120	6.19%
Debt securities investments[1]	225,961	4,953	4.38	544,907	13,585	4.99
Deposits with the central bank[2]	250,469	1,830	1.46	297,802	2,193	1.47
Deposits with banks and other financial institutions	59,398	1,458	4.91	34,671	431	2.49
Financial assets held under resale agreements and placements with banks and other financial institutions	382,522	10,487	5.48	358,041	8,039	4.49
Total interest-earning assets	**1,860,373**	**50,736**	**5.45%**	**2,337,860**	**58,368**	**4.99%**
Allowance for impairment losses	(28,143)			(31,964)		
Non-interest earning assets[3]	123,341			148,471		
Total assets	**1,955,571**	**50,736**		**2,454,367**	**58,368**	

	For the six months ended June 30,					
	2012			2013		
	Average balance[7]	Interest expense	Average cost[8]	Average balance[7]	Interest expense	Average cost[8]
		(unaudited)				
	(in millions of RMB, except percentages)					
Liabilities						
Deposits from customers[4]	1,230,375	15,288	2.49%	1,459,533	17,621	2.41%
Deposits from banks and other financial institutions	356,051	7,655	4.30	568,915	11,744	4.13
Financial assets sold under repurchase agreements and placements from banks and other financial institutions	109,949	1,958	3.56	111,837	1,763	3.15
Debt securities issued	32,341	734	4.54	50,512	1,140	4.51
Total interest-bearing liabilities	**1,728,716**	**25,635**	**2.97%**	**2,190,797**	**32,268**	**2.95%**
Fair value change of structured deposits		(207)			46	
Non-interest-bearing liabilities	60,736			64,216		
Total liabilities	**1,789,452**	**25,428**		**2,255,013**	**32,314**	
Net interest income		**25,308**			**26,054**	
Net interest spread[5]		**2.48%**			**2.04%**	
Net interest margin[6]		**2.70%**			**2.23%**	

Notes:

(1) Consist of available-for-sale debt securities, held-to-maturity debt securities, debt securities held for trading and debt securities classified as receivables.

(2) Primarily consist of required deposit reserves and surplus deposit reserves.

(3) Consist of cash, positive fair value of derivatives, assets held for wealth management, interest receivable and other assets.

(4) Consist of corporate deposits, retail deposits and structured deposits.

(5) Calculated as the difference between the average yield on total interest-earning assets (calculated on an annualized basis) and the average cost of total interest-bearing liabilities (calculated on an annualized basis).

(6) Calculated by dividing net interest income (including the impact of fair value change of structured deposits) by the average balance of total interest-earning assets on an annualized basis.

(7) Represents the average of the daily balances during the period.

(8) Calculated on an annualized basis.

The following table sets forth, for the periods indicated, the changes in our interest income and interest expense allocated to various categories of assets or liabilities and the contributions to such changes from change in volume and change in rate within each asset or liability category. The contribution from change in volume is measured by multiplying the difference between the average balance of the relevant assets or liabilities for the current period and the average balance of the relevant assets or liabilities for the previous period by the average yield/cost for the relevant period. The contribution from changes in rate is measured by multiplying the difference between the average yield/cost for the current period and the average yield/cost for the previous period by the average balance of the relevant assets or liabilities for the previous period.

	Changes in interest income and interest expense for the six months ended June 30, 2013 vs. 2012		
	Increase/(decrease) due to changes in		
	Volume(1)	Rate(2)	Net increase/ (decrease)(3)
	(in millions of RMB)		
Assets			
Loans and advances to customers	4,965	(2,853)	2,112
Debt securities investments	7,952	680	8,632
Deposits with the central bank	349	14	363
Deposits with banks and other financial institutions	(307)	(720)	(1,027)
Financial assets held under resale agreements and placements with banks and other financial institutions	(550)	(1,898)	(2,448)
Changes in interest income	**12,409**	**(4,777)**	**7,632**
Liabilities			
Deposits from customers	2,871	(538)	2,333
Deposits from banks and other financial institutions	4,394	(305)	4,089
Financial assets sold under repurchase agreements and placements from banks and other financial institutions	30	(225)	(195)
Debt securities issued	410	(4)	406
Sub-total	7,705	(1,072)	6,633
Fair value change of structured deposits			253
Changes in interest expense			**6,886**

Notes:

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

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

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

Interest Income

Our interest income increased by 15.0% to RMB58,368 million for the six months ended June 30, 2013 compared to RMB50,736 million for the six months ended June 30, 2012, primarily due to an increase of 25.7% in the average balance of our interest-earning assets to RMB2,337,860 million for the six months ended June 30, 2013 compared to RMB1,860,373 million for the six months ended June 30, 2012, partially offset by the decrease in the average yield of our total interest-bearing assets to 4.99% for the six months ended June 30, 2013 compared to 5.45% for the six months ended June 30, 2012. The increase in the average balance of our interest-earning assets was primarily due to an increase in the average balance of (i) our debt securities investments, (ii) our loans and advances to customers, and (iii) our deposits with the central bank. The increase in the average balance of our interest-earning assets was partially offset by a decrease in the average balance of (i) financial assets held under resale agreements and placements with banks and other financial institutions and (ii) our deposits with banks and other financial institutions. The decrease in the average yield on our interest-earning assets was primarily due to decreases in the average yield of (i) our loans and advances to customers, (ii) our deposits with banks and other financial institutions, and (iii) our financial assets held under resale agreements and placements with banks and other financial institutions.

Interest Income from Loans and Advances to Customers

Interest income from loans and advances to customers is the largest component of our interest income, representing 63.1% and 58.5% of our interest income for the six months ended June 30, 2012 and 2013, respectively.

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

	For the six months ended June 30,					
	2012			2013		
	Average balance(1)	Interest income	Average yield(2)	Average balance(1)	Interest income	Average yield(2)
		(unaudited)				
	(in millions of RMB, except percentages)					
Corporate loans	673,470	23,085	6.86%	734,535	23,040	6.27%
Retail loans	245,231	7,740	6.31	341,266	10,259	6.01
Discounted bills	23,322	1,183	10.14	26,638	821	6.16
Total loans and advances to customers	**942,023**	**32,008**	**6.80%**	**1,102,439**	**34,120**	**6.19%**

Notes:

(1) Represents the average of the daily balances during the period.

(2) Calculated on an annualized basis.

Interest income from loans and advances to customers increased by 6.6% to RMB34,120 million for the six months ended June 30, 2013 compared to RMB32,008 million for the six months ended June 30, 2012, primarily as a result of an increase in the average balance to RMB1,102,439 million for the six months ended June 30, 2013 compared to RMB942,023 million for the six months ended June 30, 2012, partially offset by the decrease in the average yield of our total loans and advances to customers to 6.19% for the six months ended June 30, 2013 compared to 6.80% for the six months ended June 30, 2012. The increase in the average balance of our loans and advances to customers was primarily due to our continued business expansion. The decrease in the average yield on our loans and advances to customers was primarily due to the decrease in the average yields of our corporate loans, retail loans and discounted bills.

The largest component of our interest income from loans and advances to customers is the interest income from our corporate loans, representing 72.1% and 67.5% of our total interest income from loans and advances to customers for the six months ended June 30, 2012 and 2013, respectively.

Interest income from corporate loans remained relatively stable at RMB23,040 million for the six months ended June 30, 2013 compared to RMB23,085 million for the six months ended June 30, 2012. The average balance increased by 9.1% to RMB734,535 million for the six months ended June 30, 2013 from RMB673,470 million for the six months ended June 30, 2012, reflecting the overall expansion of our corporate banking business. Such increase in the average balance was offset by a decrease in the average yield to 6.27% for the six months ended June 30, 2013 compared to 6.86% for the six months ended June 30, 2012, primarily due to the impact of two consecutive decreases in the PBOC benchmark interest rates since the second half of 2012.

Interest income from our retail loans increased by 32.5% to RMB10,259 million for the six months ended June 30, 2013 compared to RMB7,740 million for the six months ended June 30, 2012, primarily due to an increase of 39.2% in the average balance to RMB341,266 million for the six months ended June 30, 2013 compared to RMB245,231 million for the six months ended June 30, 2012. The increase in the average balance reflected the overall expansion of our retail banking business. The decrease in the average yield on retail loans was primarily due to the impact of two consecutive decreases in the PBOC benchmark interest rates since the second half of 2012.

Interest income from discounted bills decreased by 30.6% to RMB821 million for the six months ended June 30, 2013 compared to RMB1,183 million for the six months ended June 30, 2012, primarily due to a decrease in the average yield, partially offset by an increase in the average balance. The average balance of discounted bills increased by 14.2% to RMB26,638 million for the six months ended June 30, 2013 from RMB23,322 million for the six months ended June 30, 2012, primarily due to the expansion of our business. The average yield on discounted bills decreased to 6.16% for the six months ended June 30, 2013 compared to 10.14% for the six months ended June 30, 2012, primarily due to an increase in the proportion of short term discounted bills, which have greater liquidity and carry lower yields.

Interest Income from Debt Securities Investments

Interest income from debt securities investments represented 9.8% and 23.3% of our total interest income for the six months ended June 30, 2012 and 2013, respectively.

Interest income from debt securities investments increased significantly by 174.3% to RMB13,585 million for the six months ended June 30, 2013 compared to RMB4,953 million for the six months ended June 30, 2012, primarily due to an increase in the average balance on our debt securities investments to RMB544,907 million for the six months ended June 30, 2013 compared to RMB225,961 million for the six months ended June 30, 2012. The increase in the average balance was primarily due to the adjustment of our investment portfolios to allocate our fund resources to debt securities with higher yields, including debt securities classified as receivables.

Interest Income from Deposits with the Central Bank

Our interest-earning deposits with the central bank primarily consist of required deposit reserves and surplus deposit reserves with the PBOC. Required deposit reserves represent the minimum level of cash deposits with the PBOC which we are required to maintain, calculated as a percentage of the balance of our total deposits from customers. Surplus deposit reserves are the deposits with the PBOC in excess of required deposit reserves.

Interest income from deposits with the central bank increased by 19.8% to RMB2,193 million for the six months ended June 30, 2013 compared to RMB1,830 million for the six months ended June 30, 2012, primarily due to an increase in the average balance by 18.9% to RMB297,802 million for the six months ended June 30, 2013 compared to RMB250,469 million for the six months ended June 30, 2012. The increase in the average balance was primarily due to an increase in our required deposit reserves, reflecting an increase in our deposits from customers.

Interest Income from Deposits with Banks and other Financial Institutions

Interest income from deposits with banks and other financial institutions decreased significantly by 70.4% to RMB431 million for the six months ended June 30, 2013 compared to RMB1,458 million for the six months ended June 30, 2012, primarily due to (i) a decrease in the average yield to 2.49% for six months ended June 30, 2013 compared to 4.91% for the six months ended June 30, 2012 and (ii) a decrease in the average balance to RMB34,671 million for six months ended June 30, 2013 compared to RMB59,398 million for the six months ended June 30, 2012. The decrease in the average yield of deposits with banks and other financial institutions was primarily due to a decrease in the PRC inter-bank money market interest rate in 2013 as a result of two consecutive decreases in the PBOC benchmark interest rate since the second half of 2012 and a decrease in the required reserve ratio. The decrease in the average balance was primarily due to the reallocation of our fund resources to products with higher yields while meeting our liquidity needs.

Interest Income from Financial Assets Held under Resale Agreements and Placements with Banks and other Financial Institutions

For the six months ended June 30, 2012 and 2013, interest income from financial assets held under resale agreements and placements with banks and other financial institutions represented 20.7% and 13.8% of our total interest income, respectively.

Interest income from financial assets held under resale agreements and placements with banks and other financial institutions decreased by 23.3% to RMB8,039 million for the six months ended June 30, 2013 compared to RMB10,487 million for the six months ended June 30, 2012, primarily due to (i) a decrease in the average yield to 4.49% for the six months ended June 30, 2013 compared to 5.48% for the six months ended June 30, 2012 and (ii) a decrease in the average balance to RMB358,041 million for six months ended June 30, 2013 compared to RMB382,522 million for the six months ended June 30, 2012. The decrease in the average yield on financial assets held under resale agreements and placements with banks and other financial institutions was primarily due to a lower inter-bank money market interest rate as a result of the two consecutive downward adjustments of the benchmark interest rate by the PBOC in 2012 and a decrease in the required reserve ratio. The decrease in average balance of financial assets held under resale agreements and placements with banks and other financial institutions was primarily due to the adjustment of our asset structure.

Interest Expense

Interest expense increased by 27.1% to RMB32,314 million for the six months ended June 30, 2013 compared to RMB25,428 million for the six months ended June 30, 2012, primarily due to a 26.7% increase in the average balance of interest-bearing liabilities, partially offset by a decrease in the average cost of interest-bearing liabilities to 2.95% for the six months ended June 30, 2013 compared to 2.97% for the six months ended June 30, 2012. The decrease in the average cost on our interest-bearing liabilities was primarily due to the decreases in the average cost of deposits from customers, the average cost of deposits from banks and other financial institutions, the average cost of financial assets sold under repurchase agreements and placements from banks and other financial institutions, and the average cost of debt securities issued.

Interest Expense on Deposits from Customers

Interest expense on deposits from customers (including structured deposits) represented 60.1% and 54.5% of our total interest expense for the six months ended June 30, 2012 and 2013, respectively.

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

	For the six months ended June 30,					
	2012			2013		
	Average balance(1)	Interest expense	Average cost(2)	Average balance(1)	Interest expense	Average cost(2)
		(unaudited)				
	(in millions of RMB, except percentages)					
Corporate deposits						
Time	582,696	10,662	3.66%	697,691	11,878	3.40%
Demand	396,441	1,575	0.79	422,868	1,465	0.69
Subtotal	979,137	12,237	2.50	1,120,559	13,343	2.38
Retail deposits						
Time	113,078	1,742	3.08	136,508	2,237	3.28
Demand	66,108	182	0.55	83,518	203	0.49
Subtotal	179,186	1,924	2.15	220,026	2,440	2.22
Structured deposits(3)						
Corporate	18,887	294	3.11	33,430	649	3.88
Retail	53,165	833	3.13	85,518	1,189	2.78
Subtotal	72,052	1,127	3.13	118,948	1,838	3.09
Total deposits from customers	**1,230,375**	**15,288**	**2.49%**	**1,459,533**	**17,621**	**2.41%**

Notes:

(1) Represents the average of the daily balances during the period.

(2) Calculated on an annualized basis.

(3) Structured deposits are all time deposits.

The largest component of our interest expense on deposits from customers has been interest expense on corporate deposits, representing 80.0% and 75.7% of our total interest expense on deposits from customers for the six months ended June 30, 2012 and 2013, respectively.

Interest expense on total deposits from customers increased by 15.3% to RMB17,621 million for the six months ended June 30, 2013 compared to RMB15,288 million for the six months ended June 30, 2012, primarily due to an increase of 18.6% in the average balance which was partially offset by a decrease of eight basis points in the average cost. The increase in the average balance was primarily due to our marketing efforts to attract corporate and retail deposits. The decrease in the average cost was primarily due to the impact of two consecutive decreases in the PBOC benchmark interest rate since the second half of 2012.

Interest expense on corporate deposits increased by 9.0% to RMB13,343 million for the six months ended June 30, 2013 compared to RMB12,237 million for the six months ended June 30, 2012, primarily due to an increase in the average balance by 14.4% to RMB1,120,559 million for the six months ended June 30, 2013 compared to RMB979,137 million for the six months ended June 30, 2012, which was partially offset by a decrease of 12 basis points in the average cost. The increase in the average balance was primarily due to our marketing efforts to attract corporate deposits. The decrease in the average cost of our corporate deposits was primarily due to the impact of two consecutive decreases in the PBOC benchmark interest rates since the second half of 2012.

Interest expense on retail deposits increased by 26.8% to RMB2,440 million for the six months ended June 30, 2013 compared to RMB1,924 million for the six months ended June 30, 2012, primarily due to (i) an increase in the average balance by 22.8% to RMB220,026 million for the six months ended June 30, 2013 compared to RMB179,186 million for the six months ended June 30, 2012, and (ii) an increase in the average cost to 2.22% for the six months ended June 30, 2013 compared to 2.15% for the six months ended June 30, 2012. The increase in the average balance was primarily due to our business expansion in the retail sector. The increase in the average cost was primarily because (i) the PBOC raised the interest rate ceiling of deposits in 2012 and (ii) the average balance of retail time deposits, which have a higher average cost than retail demand deposits, increased by 20.7% to RMB136,508 million for the six months ended June 30, 2013 from RMB113,078 million for the six months ended June 30, 2012.

Our structured deposits refer to structured wealth management products, each of which consists of a time deposit and a derivative transaction. Interest expense on structured deposits significantly increased by 63.1% to RMB1,838 million for the six months ended June 30, 2013 compared to RMB1,127 million for the six months ended June 30, 2012, primarily due to an increase in the average balance by 65.1% to RMB118,948 million for the six months ended June 30, 2013 compared to RMB72,052 million for the six months ended June 30, 2012, which was partially offset by a decrease in the average cost to 3.09% for the six months ended June 30, 2013 compared to 3.13% for the six months ended June 30, 2012. The increase in the average balance of our structured deposits was primarily due to (i) the increased market demand for such products and (ii) our enhanced marketing efforts for structured deposits, with the aim of obtaining more high net-worth customers. The decrease in the average cost of our structured deposits was primarily due to the impact of the overall decrease in market interest rates.

Interest Expense on Deposits from Banks and Other Financial Institutions

Interest expense on deposits from banks and other financial institutions increased by 53.4% to RMB11,744 million for the six months ended June 30, 2013 compared to RMB7,655 million for the six months ended June 30, 2012, primarily due to an increase in the average balance by 59.8% to RMB568,915 million for the six months ended June 30, 2013 compared to RMB356,051 million for the six months ended June 30, 2012, which was partially offset by a decrease of 17 basis points in the average cost. The increase in the average balance of our deposits from banks and other financial institutions was primarily due to the expansion of our inter-bank business operations. The decrease in the average cost of our deposits from banks and other financial institutions was primarily due to a decrease in the interest rate of the PRC inter-bank money market.

Interest Expense on Financial Assets Sold under Repurchase Agreements and Placements from Banks and Other Financial Institutions

Interest expense on financial assets sold under repurchase agreements and placements from banks and other financial institutions decreased by 10.0% to RMB1,763 million for the six months ended June 30, 2013 compared to RMB1,958 million for the six months ended June 30, 2012, primarily due to a decrease in the average cost to 3.15% for the six months ended June 30, 2013 compared to 3.56% for the six months ended June 30, 2012, which was partially offset by an increase in the average balance.

The decrease in the average cost of our financial assets sold under repurchase agreements and placements from banks and other financial institutions was primarily due to a decrease in the interest rate of the PRC inter-bank money market. The increase in the average balance of our financial assets sold under repurchase agreements and placements from banks and other financial institutions was primarily due to the expansion of operations of our financial assets sold under repurchase agreements and placements from banks and other financial institutions.

Net Interest Spread and Net Interest Margin

Net interest spread is the difference between the average yield on interest-earning assets and the average cost on interest-bearing liabilities. Net interest margin (which is calculated on an annualized basis) is the ratio of net interest income (including the impact of fair value change of structured deposits) to the average balance of total interest-earning assets.

Our net interest spread decreased to 2.04% for the six months ended June 30, 2013 compared to 2.48% for the six months ended June 30, 2012, primarily due to a decrease of 46 basis points in the average yield on our interest-earning assets to 4.99% for the six months ended June 30, 2013 compared to 5.45% for the six months ended June 30, 2012, partially offset by a decrease of 2 basis points in the average cost of our interest-bearing liabilities to 2.95% for the six months ended June 30, 2013 compared to 2.97% for the six months ended June 30, 2012.

Our net interest margin decreased by 47 basis points to 2.23% for the six months ended June 30, 2013 compared to 2.70% for the six months ended June 30, 2012, because while our net interest income increased by 2.9%, the average balance of our interest-earning assets increased at a greater rate by 25.7% for the six months ended June 30, 2013 compared to the six months ended June 30, 2012.

The decrease in our net interest spread was primarily due to declines in the average yields on our loans and other financial assets, accompanied by the stable average costs of our interest-bearing liabilities. The decrease in our net interest margin was primarily due to lesser growth in our net interest income as compared to the growth in our average balance of interest-earning assets.

Net Fee and Commission Income

Net fee and commission income represented 16.2% and 21.7% of our total operating income for the six months ended June 30, 2012 and 2013, respectively. The following table sets forth, for the periods indicated, the principal components of our net fee and commission income.

	For the six months ended June 30,	
	2012	2013
	(unaudited)	
	(in millions of RMB)	
Fee and commission income		
Bank card service fees	1,784	3,200
Settlement and clearing fees	869	850
Underwriting and advisory fees	904	1,152
Wealth management service fees	519	1,174
Agency service fees	350	303
Acceptance and guarantee fees	321	432
Custody and other fiduciary business fees	280	388
Others[1]	136	167
Subtotal	5,163	7,666
Fee and commission expenses	**(225)**	**(317)**
Net fee and commission income	**4,938**	**7,349**

Note:

(1) Primarily consist of management fees from trade finance limits and fees from leasing business.

Our net fee and commission income increased by 48.8% to RMB7,349 million for the six months ended June 30, 2013 compared to RMB4,938 million for the six months ended June 30, 2012, primarily due to the increases in bank card service fees, wealth management service fees, and underwriting and advisory fees.

Bank Card Service Fees

Bank card service fees primarily consist of annual fees and transaction fees on our credit cards. Bank card service fees increased by 79.4% to RMB3,200 million for the six months ended June 30, 2013 compared to RMB1,784 million for the six months ended June 30, 2012, primarily due to an increase in transaction fees received from our credit card holders as a result of (i) our increased focus on products with higher yield and (ii) increases in the number of credit cards issued by us and the transaction volume of our credit card holders.

Settlement and Clearing Fees

Settlement and clearing fees primarily consist of fees earned on settlement and clearing services in respect of bank drafts, commercial drafts, promissory notes and checks, as well as fees earned on money transfers and clearing services. Settlement and clearing fees decreased by 2.2% to RMB850 million for the six months ended June 30, 2013 compared to RMB869 million for the six months ended June 30, 2012, primarily due to decreases in our factoring fees and domestic trading and financial settlement fees.

Underwriting and Advisory Fees

Underwriting and advisory fees primarily consist of fees earned on the underwriting of securities (such as short-term commercial paper and medium-term notes) and our financial advisory services for customers. Underwriting and advisory fees increased by 27.4% to RMB1,152 million for the six months ended June 30, 2013 compared to RMB904 million for the six months ended June 30, 2012, primarily due to the growth in fees from our short-term commercial paper business and the continued strengthening of our cooperation with companies in other industries, including finance leasing, trusts, automobile financing and other banking institutions.

Wealth Management Service Fees

Wealth management service fees primarily consist of fees earned on the sales and management of the Sunshine Wealth Management (陽光理財) products. Wealth management service fees increased significantly by 126.2% to RMB1,174 million for the six months ended June 30, 2013 compared to RMB519 million for the six months ended June 30, 2012, primarily due to the growth of our wealth management business.

Agency Service Fees

Agency service fees primarily consist of fees earned on our agency services in connection with distribution of insurance, mutual fund products, trust business, agency trading of gold and other agency service fees, which include commissions from trading debt securities on behalf of our corporate customers. Agency service fees decreased by 13.4% to RMB303 million for the six months ended June 30, 2013 compared to RMB350 million for the six months ended June 30, 2012, primarily due to agency service fees recognized for the six months ended June 30, 2012 for a service provided to a government institution.

Acceptance and Guarantee Fees

Acceptance and guarantee fees primarily consist of fees from issuing recourse and non-recourse credit commitments. Acceptance and guarantee fees increased by 34.6% to RMB432 million for the six months ended June 30, 2013 compared to RMB321 million for the six months ended June 30, 2012, primarily due to the growth of our bank acceptance bills business.

Custody and Other Fiduciary Business Fees

Custody and other fiduciary business fees primarily consist of custodian fees or asset management fees collected on securities investment funds, securities companies' collective asset management plans, wealth management for banks, trust property, debt securities and enterprise annuity funds, all of which are under our custody or supervision and our other fiduciary services. Custody and other fiduciary business fees increased by 38.6% to RMB388 million for the six months ended June 30, 2013 compared to RMB280 million for the six months ended June 30, 2012, primarily due to the continued expansion of our custodian business.

Other Fees

Other fees primarily consist of management fees from our trade finance business and fees from our leasing business. Other fees increased by 22.8% to RMB167 million for the six months ended June 30, 2013 compared to RMB136 million for the six months ended June 30, 2012, primarily due to the increase in fees from our leasing business.

Fee and Commission Expenses

Fee and commission expenses primarily consist of fees paid to third parties in connection with our fee- and commission-based services that can be directly allocated to the provision of such services. Fee and commission expenses increased by 40.9% to RMB317 million for the six months ended June 30, 2013 compared to RMB225 million for the six months ended June 30, 2012, primarily due to the increase in bank card transaction fees resulting from inter-banking transactions.

Other Net Income

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

	For the six months ended June 30,	
	2012	2013
	(unaudited)	
	(in millions of RMB)	
Net gain arising from investment securities	29	121
Net trading gain	500	48
Net foreign exchange (loss)/gain	(350)	140
Other operating income	106	126
Total other net income	**285**	**435**

Other net income increased by 52.6% to RMB435 million for the six months ended June 30, 2013 compared to RMB285 million for the six months ended June 30, 2012, primarily due to (i) a net foreign exchange gain, as compared to a net loss for the six months ended June 30, 2012, and (ii) an increase in net gain arising from investment securities in the six months ended June 30, 2013, compared to the six months ended June 30, 2012, which was partially offset by a decrease in net trading gain.

Net Gain Arising from Investment Securities

Net gain arising from investment securities consists of net gains or losses on disposal of our available-for-sale financial assets, net revaluation gain/(loss) reclassified from other comprehensive income to profit or loss and net gain/(loss) on disposal of held-to-maturity investments. Net gain on investment securities increased significantly to RMB121 million for the six months ended June 30, 2013, compared to RMB29 million for the six months ended June 30, 2012. The increase in net gain from investment securities for the six months ended June 30, 2013 was primarily due to the gains from the disposal of available-for-sale bonds.

Net Trading Gain

Net trading gain consists of net realized and unrealized gains or losses on our debt financial instruments and derivative financial instruments held for trading purposes and financial instruments designated at fair value through profit or loss. We recorded a net trading gain of RMB48 million for the six months ended June 30, 2013, whereas we recorded a net trading gain of RMB500 million for the six months ended June 30, 2012. The decrease in net trading gain for the six months ended June 30, 2013 was primarily due to the depreciation of the U.S. dollar in the second quarter of 2013 and the decrease in the fair value of the corresponding derivative financial instruments for foreign exchange rate, resulting in revaluation losses.

Net Foreign Exchange (Loss)/Gain

As of June 30, 2013, we recorded a net foreign exchange gain of RMB140 million, an increase of RMB490 million from June 30, 2012. The significant increase in the net foreign exchange gain from June 30, 2012 to June 30, 2013 was primarily because the foreign exchange gain/(loss) changed from net loss as of June 30, 2012 to net gain as of June 30, 2013, which had been affected by the appreciation of Renminbi. During the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, there has generally been an inverse correlation between our net trading gain and net foreign exchange (loss)/gain.

Other Operating Income

Other operating income primarily consists of other income from business operation and non-operating income. Other income from business operation consists of investment property rental income and postal fees. Non-operating income mainly includes income from suspended deposit accounts, liquidated damages, fines, compensation and incentive fees. We recorded other operating income of RMB106 million and RMB126 million for the six months ended June 30, 2012 and 2013, respectively.

Operating Expenses

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

	For the six months ended June 30,	
	2012	2013
	(unaudited)	
	(in millions of RMB)	
Staff costs	5,511	5,741
Other general and administrative expenses	1,774	2,104
Business tax and surcharges	2,187	2,709
Depreciation and amortization expenses	669	794
Rental and property management expenses	661	812
Total operating expenses	**10,802**	**12,160**
Cost-to-income ratio(1)	**28.22%**	**27.93%**

Note:

(1) Calculated by dividing total operating expenses (excluding business tax and surcharges) by total operating income, prepared under IFRS.

Our operating expenses increased by 12.6% to RMB12,160 million for the six months ended June 30, 2013 compared to RMB10,802 million for the six months ended June 30, 2012, primarily due to increases in staff costs, other general and administrative expenses and business tax and surcharges. Our cost-to-income ratio decreased to 27.93% for the six months ended June 30, 2013 compared to 28.22% for the six months ended June 30, 2012.

Staff Costs

Staff costs are the largest component of our operating expenses, representing 51.0% and 47.2% of our total operating expenses for the six months ended June 30, 2012 and 2013, respectively.

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

	For the six months ended June 30,	
	2012	2013
	(unaudited)	
	(in millions of RMB)	
Salaries, bonuses and staff allowances	4,620	4,659
Others(1)	891	1,082
Total staff costs	**5,511**	**5,741**

Note:

(1) Primarily consist of pension and enterprise annuity, housing allowances, supplementary retirement benefits.

Staff costs increased by 4.2% to RMB5,741 million for the six months ended June 30, 2013 compared to RMB5,511 million for the six months ended June 30, 2012, primarily due to the increase in the number of our employees in connection with the expansion of our branch network.

Other General and Administrative Expenses

Other general and administrative expenses increased by 18.6% to RMB2,104 million for the six months ended June 30, 2013 compared to RMB1,774 million for the six months ended June 30, 2012, primarily due to the increase in the number of our employees and the expansion of our branch network.

Business Tax and Surcharges

Business tax is levied at 5%, primarily on our interest income from loans and advances to customers and our gross fee and commission income. In addition, aggregate surcharges of up to 15.6% of the amount of our business tax paid are levied, depending on the locality. Business tax and surcharges increased by 23.9% to RMB2,709 million for the six months ended June 30, 2013 compared to RMB2,187 million for the six months ended June 30, 2012, primarily due to an increase in our interest income and gross fee and commission income subject to these tax and surcharges.

Depreciation and Amortization Expenses

Depreciation and amortization expenses increased by 18.7% to RMB794 million for the six months ended June 30, 2013 compared to RMB669 million for the six months ended June 30, 2012, primarily due to the expansion of our branch network.

Rental and Property Management Expenses

Rental and property management expenses increased by 22.8% to RMB812 million for the six months ended June 30, 2013 compared to RMB661 million for the six months ended June 30, 2012, primarily due to the expansion of our branch network.

Impairment Losses on Assets

There is no difference between the amount of the allowance for impairment losses reported in our financial statements prepared in accordance with IFRS and the amount reported in our PRC GAAP financial statements. There is no difference between the methodologies of allowance for impairment losses prepared under IFRS and PRC GAAP. As of December 31, 2010, 2011 and 2012 and June 30, 2013, our allowance for impairment losses calculated according to IFRS also meet the requirements of the PBOC's guidelines.

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

	For the six months ended June 30,	
	2012	2013
	(unaudited)	
	(in millions of RMB)	
Impairment losses:		
Loans and advances to customers	2,410	2,266
Held-to-maturity investments	8	(33)
Other assets[1]	21	17
Total	**2,439**	**2,250**

Note:

(1) Primarily consist of impairment losses on other receivables, financial leasing receivables, interest receivables, deposits and placements with banks and other financial institutions and other assets.

Allowance for impairment losses primarily consists of allowance on loans and other assets. Impairment losses on our assets decreased by 7.7% to RMB2,250 million for the six months ended June 30, 2013 compared to RMB2,439 million for the six months ended June 30, 2012, primarily due to decreases in our impairment losses on (i) loans and advances to customers, (ii) held-to-maturity investments and (iii) other assets. The decrease in our impairment losses on loans and advances to customers was primarily due to the decrease in the provision ratio for assets that are collectively assessed for impairment. The decrease in our impairment losses on held-to-maturity investments was primarily due to the decrease in the provision ratio for our held-to-maturity investments. The decrease in our impairment losses on other assets was primarily due to decreases in the impairment losses on financial leasing receivables and other receivables.

For details on our allowance for impairment losses on loans and relevant changes, see "Assets and Liabilities – Assets – Allowance for Impairment Losses on Loans and Advances to Customers."

Income Tax

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

	For the six months ended June 30,	
	2012	2013
	(unaudited)	
	(in millions of RMB)	
Profit before tax	**17,290**	**19,428**
Income tax calculated at statutory rate	4,323	4,857
Non-deductible expenses[1]	147	293
Non-taxable income[2]	(146)	(378)
Adjustment for prior years	30	(283)
Income tax	**4,354**	**4,489**
Effective tax rate	**25.18%**	**23.11%**

Notes:

(1) Primarily consist of non-deductible staff costs and other operating expenses.

(2) Primarily consists of interest income from PRC central government bonds.

Our income tax expense increased by 3.1% to RMB4,489 million for the six months ended June 30, 2013 compared to RMB4,354 million for the six months ended June 30, 2012. Our effective tax rate decreased to 23.11% for the six months ended June 30, 2013 as compared to 25.18% for the same period in 2012.

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

	For the six months ended June 30,	
	2012	2013
	(unaudited)	
	(in millions of RMB)	
Current income tax	4,190	4,854
Deferred income tax	134	(82)
Adjustment for prior years	30	(283)
Income tax	**4,354**	**4,489**

Net Profit

As a result of all the foregoing factors, our net profit increased by 15.5% to RMB14,939 million for the six months ended June 30, 2013, compared to RMB12,936 million for the six months ended June 30, 2012.

Years Ended December 31, 2010, 2011 and 2012

Net Interest Income

Net interest income is the largest component of our operating income, representing 85.2%, 85.4% and 83.7% of our operating income for the years ended December 31, 2010, 2011 and 2012, respectively.

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

	For the year ended December 31,		
	2010	2011	2012
	(in millions of RMB)		
Interest income	54,156	77,884	103,971
Interest expense	(23,733)	(38,444)	(53,708)
Net interest income	**30,423**	**39,440**	**50,263**

Our net interest income increased by 27.4% to RMB50,263 million in 2012 compared to RMB39,440 million in 2011, primarily as a result of a 33.5% increase in our interest income to RMB103,971 million in 2012 compared to RMB77,884 million in 2011, partially offset by a 39.7% increase in our interest expense to RMB53,708 million in 2012 compared to RMB38,444 million in 2011.

Our net interest income increased by 29.6% to RMB39,440 million in 2011 from RMB30,423 million in 2010, primarily as a result of a 43.8% increase in our interest income to RMB77,884 million in 2011 compared to RMB54,156 million in 2010, partially offset by a 62.0% increase in our interest expense to RMB38,444 million in 2011 compared to RMB23,733 million in 2010.

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

	For the year ended December 31,								
	2010			2011			2012		
	Average balance[8]	Interest income	Average yield	Average balance[8]	Interest income	Average yield	Average balance[8]	Interest income	Average yield
	(in millions of RMB, except percentages)								
Assets									
Loans and advances to customers	734,238	36,941	5.03%	849,126	50,919	6.00%	983,834	65,520	6.66%
Debt securities investments[1]	168,393	5,766	3.42	210,928	7,821	3.71	295,557	13,689	4.63
Deposits with the central bank[2]	146,337	2,107	1.44	209,141	3,106	1.49	262,644	3,901	1.49
Deposits with banks and other financial institutions	61,388	1,400	2.28	61,526	3,030	4.92	54,707	1,943	3.55
Financial assets held under resale agreements and placements with banks and other financial institutions	284,404	7,744	2.72	251,079	13,008	5.18	370,230	18,918	5.11
Total interest-earning assets	**1,394,760**	**53,958**	**3.87%**	**1,581,800**	**77,884**	**4.92%**	**1,966,972**	**103,971**	**5.29%**
Interest expense adjustment on re-discounted bills[3]		198			–			–	
Allowance for impairment losses	(22,652)			(25,527)			(29,514)		
Non-interest earning assets[4]	89,927			102,147			104,394		
Total assets	**1,462,035**	**54,156**		**1,658,420**	**77,884**		**2,041,852**	**103,971**	

	For the year ended December 31,								
	2010			2011			2012		
	Average balance(8)	Interest expense	Average cost	Average balance(8)	Interest expense	Average cost	Average balance(8)	Interest expense	Average cost
	(in millions of RMB, except percentages)								
Liabilities									
Deposits from customers(5)	935,146	14,554	1.56%	1,115,498	23,446	2.10%	1,283,275	31,750	2.47%
Deposits from banks and other financial institutions	284,157	6,702	2.36	256,435	11,593	4.52	403,044	16,890	4.19
Financial assets sold under repurchase agreements and placements from banks and other financial institutions	73,706	1,571	2.13	77,057	2,656	3.45	101,703	3,419	3.36
Debt securities issued	18,540	859	4.63	16,000	753	4.71	42,576	1,953	4.59
Total interest-bearing liabilities	**1,311,549**	**23,686**	**1.81%**	**1,464,990**	**38,448**	**2.62%**	**1,830,598**	**54,012**	**2.95%**
Interest expense adjustment on re-discounted bills(3)		198			–			–	
Fair value change of structured deposits		(151)			(4)			(304)	
Non-interest bearing liabilities	73,265			76,335			58,875		
Total liabilities	**1,384,814**	**23,733**		**1,541,325**	**38,444**		**1,889,473**	**53,708**	
Net interest income		**30,423**			**39,440**			**50,263**	
Net interest spread(6)		**2.06%**			**2.30%**			**2.34%**	
Net interest margin(7)		**2.17%**			**2.49%**			**2.54%**	

Notes:

(1) Consist of available-for-sale debt securities, held-to-maturity debt securities, debt securities held for trading and debt securities classified as receivables.

(2) Primarily consist of required deposit reserves and surplus deposit reserves.

(3) Interest expense adjustment on re-discounted bills represents the adjustment for interest expense on re-discounted bills. In prior years, the interest income from discounted bills and the interest expense on re-discounted bills were both recorded on a gross basis, but for yield analysis purpose, the interest income from discounted bills is presented on net basis. Therefore, we made such adjustment to reconcile the difference. From the first quarter of 2011, we changed the accounting treatment and the interest income from discounted bills and the interest expense on re-discounted bills has been recorded on a net basis which is consistent with the yield analysis.

(4) Consist of cash, positive fair value of derivatives, assets held for wealth management, interest receivable and other assets.

(5) Consist of corporate deposits, retail deposits and structured deposits.

(6) Calculated as the difference between the average yield on total interest-earning assets and the average cost of total interest-bearing liabilities.

(7) Calculated by dividing net interest income (including the impact of fair value change of structured deposits) by the average balance of total interest-earning assets.

(8) Represents the average of the daily balances during the period.

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

	For the year ended December 31,					
	2011 vs. 2010			2012 vs. 2011		
	Increase/ (decrease) due to		Net increase/ (decrease)(3)	Increase/ (decrease) due to		Net increase/ (decrease)(3)
	Volume(1)	Rate(2)		Volume(1)	Rate(2)	
	(in millions of RMB)					
Assets						
Loans and advances to customers	6,889	7,089	13,978	8,971	5,630	14,601
Debt securities investments	1,577	478	2,055	3,920	1,948	5,868
Deposits with the central bank	933	66	999	795	–	795
Deposits with banks and other financial institutions	7	1,623	1,630	(242)	(845)	(1,087)
Financial assets held under resale agreements and placements with banks and other financial institutions	(1,727)	6,991	5,264	6,088	(178)	5,910
Sub-total	7,679	16,247	23,926	19,532	6,555	26,087
Interest expense adjustment on re-discounted bills			(198)			–
Changes in interest income			**23,728**			**26,087**
Liabilities						
Deposits from customers	3,927	4,965	8,892	4,301	4,003	8,304
Deposits from banks and other financial institutions	(1,253)	6,144	4,891	6,144	(847)	5,297
Financial assets sold under repurchase agreements and placements from banks and other financial institutions	116	969	1,085	829	(66)	763
Debt securities issued	(120)	14	(106)	1,219	(19)	1,200
Sub-total	2,670	12,092	14,762	12,493	3,071	15,564
Interest expense adjustment on re-discounted bills			(198)			–
Fair value change of structured deposits			147			(300)
Changes in interest expense			**14,711**			**15,264**

Notes:

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

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

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

Interest Income

2012 Compared to 2011. Our interest income increased by 33.5% to RMB103,971 million in 2012 compared to RMB77,884 million in 2011, primarily due to an increase of 24.4% in the average balance of our interest-earning assets to RMB1,966,972 million in 2012 compared to RMB1,581,800 million in 2011, and an increase in the average yield on our interest-earning assets to 5.29% in 2012 compared to 4.92% in 2011. The increase in the average balance of our interest-earning assets was primarily due to (i) an increase in the average balance of our loans and advances to customers from RMB849,126 million in 2011 to RMB983,834 million in 2012, (ii) an increase in the average balance of financial assets held under resale agreements and placements with banks and other financial institutions from RMB251,079 million in 2011 to RMB370,230 million in 2012, (iii) an increase in the average balance of our debt securities investments from RMB210,928 million in 2011 to RMB295,557 million in 2012, and (iv) an increase in the average balance of our deposits with the central bank from RMB209,141 million in 2011 to RMB262,644 million in 2012. The increase in the average balance of our interest-earning assets was partially offset by a decrease in the average balance of our deposits with banks and other financial institutions from RMB61,526 million in 2011 to RMB54,707 million in 2012. The increase in the average yield on our interest-earning assets primarily reflected increases in the average yield of loans and advances to customers and in the average yield of debt securities investments.

2011 Compared to 2010. Our interest income increased by 43.8% to RMB77,884 million in 2011 from RMB54,156 million in 2010, primarily due to an increase in the average balance of our interest-earning assets to RMB1,581,800 million in 2011 from RMB1,394,760 million in 2010 and an increase in the average yield on our interest-earning assets to 4.92% in 2011 from 3.87% in 2010. The increase in the average balance of our interest-earning assets was primarily due to (i) an increase in the average balance of loans and advances to customers from RMB734,238 million in 2010 to RMB849,126 million in 2011, (ii) an increase in the average balance of debt securities investment from RMB168,393 million in 2010 to RMB210,928 million in 2011, and (iii) an increase in the average balance of deposits with the central bank from RMB146,337 million in 2010 to RMB209,141 million in 2011. The increase in the average balance of our interest-earning assets was partially offset by the decrease in the average balance of financial assets held under resale agreements and placements with banks and other financial institutions from RMB284,404 million in 2010 to RMB251,079 million in 2011. The increase in the average yield of our interest-earning assets primarily reflected the increases in the average yield of financial assets held under resale agreements and placements with banks and other financial institutions, the average yield of our deposits with banks and other financial institutions, the average yield of our loans and advances to customers and the average yield of our debt securities investments.

Interest Income from Loans and Advances to Customers

Interest income from loans and advances to customers is the largest component of our interest income, representing 68.2%, 65.4% and 63.0% of our interest income in 2010, 2011 and 2012, respectively.

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

	For the year ended December 31,								
	2010			2011			2012		
	Average balance[(1)]	Interest income	Average yield	Average balance[(1)]	Interest income	Average yield	Average balance[(1)]	Interest income	Average yield
	(in millions of RMB, except percentages)								
Corporate loans	531,756	27,065	5.09%	618,144	36,992	5.98%	686,359	46,526	6.78%
Retail loans	173,511	8,833	5.09	217,959	12,667	5.81	271,390	17,017	6.27
Discounted bills	28,971	1,043	3.60	13,023	1,260	9.68	26,085	1,977	7.58
Total loans and advances to customers	**734,238**	**36,941**	**5.03%**	**849,126**	**50,919**	**6.00%**	**983,834**	**65,520**	**6.66%**

Note:

(1) Represents the average of the daily balances during the period.

2012 Compared to 2011. Interest income from loans and advances to customers increased by 28.7% to RMB65,520 million in 2012 compared to RMB50,919 million in 2011, primarily as a result of (i) an increase in the average balance to RMB983,834 million in 2012 compared to RMB849,126 million in 2011, and (ii) an increase in the average yield to 6.66% in 2012 compared to 6.00% in 2011. The increase in the average balance of our loans and advances to customers was largely in line with our business growth and expansion. The increase in the average yield on our loans and advances to customers was primarily due to our efforts to optimize the loan portfolio and the continued enhancement of our loan pricing power.

2011 Compared to 2010. Interest income from loans and advances to customers increased by 37.8% to RMB50,919 million in 2011 from RMB36,941 million in 2010, primarily as a result of an increase in the average balance to RMB849,126 million in 2011 from RMB734,238 million in 2010 and an increase in the average yield to 6.00% in 2011 compared to 5.03% in 2010. The increase in the average balance of our loans and advances to customers was primarily due to our continued business scale expansion. The increase in the average yield on loans and advances to customers was primarily due to (i) our adjustment of loan portfolio and improvement of our customer base, (ii) the enhancement of our loan pricing power, and (iii) the impact of increases in the PBOC benchmark interest rate since the second half of 2010.

The largest component of our interest income from loans and advances to customers has been interest income from corporate loans, representing 73.3%, 72.6% and 71.0% of our total interest income from loans and advances to customers for the years ended December 31, 2010, 2011 and 2012, respectively.

2012 Compared to 2011. Interest income from corporate loans increased by 25.8% to RMB46,526 million in 2012 compared to RMB36,992 million in 2011, primarily due to (i) an increase of 11.0% in the average balance to RMB686,359 million in 2012 compared to RMB618,144 million in 2011, and (ii) an increase in the average yield to 6.78% in 2012 compared to 5.98% in 2011. The increase in the average balance reflected the overall expansion of our corporate banking business. The increase in the average yield on our corporate loans was primarily due to (i) the increase in the proportion of our loans to SME customers to our total corporate loans, over which we have greater pricing power and which generally provide higher yields, (ii) the enhancement of our loan pricing power resulting in a higher average interest rate for the new corporate loans we granted in 2012, and (iii) a higher average interest rate for certain corporate loans we re-priced in the first half of 2012 as a result of the delayed impact of the increases in the PBOC benchmark interest rate in 2011.

Interest income from our retail loans increased by 34.3% to RMB17,017 million in 2012 compared to RMB12,667 million in 2011, primarily due to (i) an increase of 24.5% in the average balance to RMB271,390 million in 2012 compared to RMB217,959 million in 2011, and (ii) an increase in the average yield to 6.27% in 2012 compared to 5.81% in 2011. The increase in the average balance reflected the overall expansion of our retail banking business, in particular the growth of our micro-enterprise loan and credit card businesses. The increase in the average yield on retail loans was primarily due to (i) the adjustment of our retail loan portfolio to increase the proportion of our micro-enterprise loans, which provide higher yields, (ii) the enhancement of our loan pricing power resulting in a higher average interest rate for the new retail loans we granted in 2012, and (iii) a higher average interest rate for certain retail loans we re-priced in the first half of 2012 as a result of the delayed impact of the increases in the PBOC benchmark interest rate in 2011.

Interest income from discounted bills increased by 56.9% to RMB1,977 million in 2012 compared to RMB1,260 million in 2011, primarily due to a substantial increase in the average balance, partially offset by a decrease in the average yield. The average balance of discounted bills increased by 100.3% to RMB26,085 million in 2012 from RMB13,023 million in 2011, primarily due to the adjustment of our overall asset portfolio at the beginning of 2012 to allocate more fund resources to discounted bills which had higher yields. The average yield on discounted bills decreased to 7.58% in 2012 compared to 9.68% in 2011, primarily due to the overall decrease in the interest rate of the PRC's inter-bank money market.

2011 Compared to 2010. Interest income from corporate loans increased by 36.7% to RMB36,992 million in 2011 compared to RMB27,065 million in 2010, primarily due to (i) a 16.2% increase in the average balance to RMB618,144 million in 2011 compared to RMB531,756 million in 2010, and (ii) an increase in the average yield to 5.98% in 2011 compared to 5.09% in 2010. The increase in the average balance reflected the overall expansion of our corporate banking business. The increase in the average yield on our corporate loans was primarily due to (i) our efforts to adjust our corporate loan portfolio to increase the proportion of our loans to SMEs, which have higher yields, (ii) greater loan pricing power, and (iii) the impact of the increases in the PBOC benchmark interest rate since the second half of 2010.

Interest income from our retail loans increased by 43.4% to RMB12,667 million in 2011 compared to RMB8,833 million in 2010, primarily due to (i) an increase of 25.6% in the average balance to RMB217,959 million in 2011 compared to RMB173,511 million in 2010, and (ii) an increase in the average yield to 5.81% in 2011 compared to 5.09% for in 2010. The increase in the average balance was primarily due to our efforts to expand our retail banking business. The increase in the average yield on retail loans was primarily due to (i) an adjustment of our product mix to focus on the growth of products with higher yields, such as commercial mortgage loans and personal business loans, (ii) greater loan pricing power, and (iii) the impact of the increases in the PBOC benchmark interest rate since the second half of 2010.

Interest income from discounted bills increased by 20.8% to RMB1,260 million in 2011 compared to RMB1,043 million in 2010, primarily due to a significant increase in the average yield, partially offset by a substantial decrease in the average balance. The average balance of discounted bills substantially decreased by 55.0% to RMB13,023 million in 2011 from RMB28,971 million in 2010, primarily due to adjustments to our loan portfolio. The average yield on discounted bills significantly increased to 9.68% in 2011 compared to 3.60% in 2010, primarily due to the tightened market liquidity since the second half of 2010 as a result of the increases in the PBOC benchmark interest rate, resulting in an increase in market interest rates.

Interest Income from Debt Securities Investments

Interest income from debt securities investments represents 10.6%, 10.0% and 13.2% of our interest income for the years ended December 31, 2010, 2011 and 2012, respectively.

2012 Compared to 2011. Interest income from debt securities investments increased by 75.0% to RMB13,689 million in 2012 compared to RMB7,821 million in 2011, primarily due to an increase of 40.1% in the average balance to RMB295,557 million in 2012 compared to RMB210,928 million in 2011 and an increase in the average yield on our debt securities investments to 4.63% in 2012 compared to 3.71% in 2011. The increase in the average balance reflected the expansion and diversification of our debt securities investments business. The increase in the average yield was primarily due to the adjustment of our investment portfolios to allocate our fund resources to debt securities with higher yields, including debt securities classified as receivables.

2011 Compared to 2010. Interest income from debt securities investments increased by 35.6% to RMB7,821 million in 2011 compared to RMB5,766 million in 2010, primarily due to (i) an increase in the average balance by 25.3% to RMB210,928 million in 2011 compared to RMB168,393 million in 2010, and (ii) an increase in the average yield on our debt securities investments to 3.71% in 2011 compared to 3.42% in 2010. The increase in the average balance was primarily due to our enhanced efforts to promote the development of our debt securities investment portfolio. The increase in the average yield was primarily due to the increase in market interest rates as a result of the increases in the PBOC benchmark interest rate, the effect of which was partially offset by our efforts to shorten the average maturity of our investment portfolio so as to increase our flexibility in allocating funds.

Interest Income from Deposits with the Central Bank

2012 Compared to 2011. Interest income from deposits with the central bank increased by 25.6% to RMB3,901 million in 2012 compared to RMB3,106 million in 2011, primarily due to an increase in the average balance by 25.6% to RMB262,644 million in 2012 compared to RMB209,141 million in 2011. The increase in the average balance of deposits with the central bank was due to an increase in our required deposit reserves, reflecting an increase in our deposits from customers, partially offset by the decrease in the required deposit reserve ratio, which was lowered twice by the PBOC in 2012.

2011 Compared to 2010. Interest income from deposits with the central bank increased by 47.4% to RMB3,106 million in 2011 compared to RMB2,107 million in 2010, primarily due to (i) an increase of 42.9% in the average balance to RMB209,141 million in 2011 compared to RMB146,337 million in 2010, and (ii) a slight increase in the average yield to 1.49% in 2011 compared to 1.44% in 2010. The increase in the average balance was primarily due to an increase in our required deposit reserves, reflecting (i) an increase in our deposits from customers, and (ii) the PBOC's multiple increases of the required deposit reserve ratios during this period. The increase in the average yield was primarily due to an increase in our required deposit reserves in proportion to our total deposits with the central bank, which had a higher average yield than that of our surplus deposit reserves deposited with the central bank.

Interest Income from Deposits with Banks and Other Financial Institutions

2012 Compared to 2011. Interest income from deposits with banks and other financial institutions decreased by 35.9% to RMB1,943 million in 2012 compared to RMB3,030 million in 2011, primarily due to (i) a decrease in the average yield to 3.55% in 2012 compared to 4.92% in 2011 and (ii) a decrease in the average balance to RMB54,707 million in 2012 compared to RMB61,526 million in 2011. The decrease in the average yield on our deposits with banks and other financial institutions was primarily due to a decrease in the PRC inter-bank money market interest rate in 2012 as a result of the increased market liquidity. The decrease in the average balance of our deposits with banks and other financial institutions was primarily due to the reallocation of our fund resources to products with higher yields while meeting our liquidity needs.

2011 Compared to 2010. Interest income from deposits with banks and other financial institutions increased by 116.4% to RMB3,030 million in 2011 compared to RMB1,400 million in 2010, primarily due to a significant increase of the average yield to 4.92% in 2011 compared to 2.28% in 2010, while the average balance slightly increased to RMB61,526 million in 2011 compared to RMB61,388 million in 2010. The significant increase in the average yield of deposits with banks and other financial institutions was primarily due to an increase in the interest rates in the inter-bank money market as a result of the increases in the PBOC benchmark interest rate and the adjustment of the PBOC's monetary policy since the second half of 2010.

Interest Income from Financial Assets Held Under Resale Agreements and Placements with Banks and Other Financial Institutions

For the years ended December 31, 2010, 2011 and 2012, interest income from financial assets held under resale agreements and placements with banks and other financial institutions represented 14.3%, 16.7% and 18.2% of our total interest income, respectively.

2012 Compared to 2011. Interest income from financial assets held under resale agreements and placements with banks and other financial institutions increased by 45.4% to RMB18,918 million in 2012 compared to RMB13,008 million in 2011, primarily due to an increase in the average balance to RMB370,230 million in 2012 compared to RMB251,079 million in 2011, partially offset by a decrease in the average yield to 5.11% in 2012 compared to 5.18% in 2011. The decrease in the average yield on financial assets held under resale agreements and placements with banks and other financial institutions was primarily due to a lower inter-bank money market interest rate as a result of the two consecutive downward adjustments of the benchmark interest rate by the PBOC in 2012. The increase in average balance of financial assets held under resale agreements and placements with banks and other financial institutions was primarily due to the reallocation of our fund resources to products with higher yields while meeting our liquidity needs.

2011 Compared to 2010. Interest income from financial assets held under resale agreements and placements with banks and other financial institutions significantly increased by 68.0% to RMB13,008 million in 2011 compared to RMB7,744 million in 2010, primarily due to a significant increase in the average yield to 5.18% in 2011 compared to 2.72% in 2010, partially offset by a decrease in the average balance. The significant increase in the average yield on financial assets held under resale agreements and placements with banks and other financial institutions was primarily due to an increase in market interest rates as a result of the increases in the PBOC benchmark interest rate and the adjustment of the PBOC's monetary policy since the second half of 2010. The average balance of financial assets held under resale agreements and placements with banks and other financial institutions decreased by 11.7% to RMB251,079 million in 2011 compared to RMB284,404 million in 2010, which was due to the reallocation of our fund resources.

Interest Expense

2012 Compared to 2011. Interest expense increased by 39.7% to RMB53,708 million in 2012 compared to RMB38,444 million in 2011, primarily due to a 25.0% increase in the average balance of interest-bearing liabilities and an increase in the average cost of interest-bearing liabilities to 2.95% in 2012 compared to 2.62% in 2011. The increase in the average cost on our interest-bearing liabilities was primarily due to an increase in the average cost of deposits from customers, partially offset by the decreases in the average costs of (i) deposits from banks and other financial institutions, (ii) financial assets sold under repurchase agreements and placements from banks and other financial institutions, and (iii) debt securities issued.

2011 Compared to 2010. Interest expense increased by 62.0% to RMB38,444 million in 2011 compared to RMB23,733 million in 2010, primarily due to an increase in the average balance of interest-bearing liabilities, coupled with an increase in the average cost on interest-bearing liabilities to 2.62% in 2011 compared to 1.81% in 2010. The increase in the average cost on our interest-bearing liabilities primarily reflected (i) an increase in average cost of deposits from customers, (ii) a significant increase in the average cost of deposits from banks and other financial institutions, and (iii) a significant increase in the average cost of financial assets sold under repurchase agreements and placements from banks and other financial institutions.

Interest Expense on Deposits from Customers

Interest expense on deposits from customers represented 61.3%, 61.0% and 59.1% of our total interest expense for the years ended December 31, 2010, 2011 and 2012, respectively.

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

	For the year ended December 31,								
	2010			2011			2012		
	Average balance(1)	Interest expense	Average cost	Average balance(1)	Interest expense	Average cost	Average balance(1)	Interest expense	Average cost
	(in millions of RMB, except percentages)								
Corporate deposits									
Time	418,148	9,858	2.36%	521,242	16,436	3.15%	613,263	22,207	3.62%
Demand	360,439	2,293	0.64	392,606	2,985	0.76	403,535	3,043	0.75
Subtotal	778,587	12,151	1.56	913,848	19,421	2.13	1,016,798	25,250	2.48
Retail deposits									
Time	89,234	1,809	2.03	100,733	2,462	2.44	118,072	3,752	3.18
Demand	46,902	169	0.36	58,167	302	0.52	68,942	358	0.52
Subtotal	136,136	1,978	1.45	158,900	2,764	1.74	187,014	4,110	2.20
Structured deposits(2)									
Corporate	9,698	240	2.47	12,906	400	3.10	19,964	635	3.18
Retail	10,725	185	1.72	29,844	861	2.89	59,499	1,755	2.95
Subtotal	20,423	425	2.08	42,750	1,261	2.95	79,463	2,390	3.01
Total deposits from customers	**935,146**	**14,554**	**1.56%**	**1,115,498**	**23,446**	**2.10%**	**1,283,275**	**31,750**	**2.47%**

Notes:

(1) Represents the average of the daily balances during the period.

(2) Structured deposits are all time deposits.

The largest component of our interest expense on total deposits from customers has been interest expense on corporate deposits, representing 83.5%, 82.8% and 79.5% of our interest expense on total deposits from customers for the years ended December 31, 2010, 2011 and 2012, respectively.

2012 Compared to 2011. Interest expense on total deposits from customers increased by 35.4% to RMB31,750 million in 2012 compared to RMB23,446 million in 2011, primarily due to an increase of 15.0% in the average balance, coupled with an increase in the average cost to 2.47% in 2012 compared to 2.10% in 2011. The increase in the average balance of total deposits from customers was primarily due to our marketing efforts to attract corporate and retail deposits. The increase in the average cost of our total deposits from customers was primarily because (i) the PBOC raised the interest rate ceiling of deposits in 2012, and (ii) the proportion of the total average balance of corporate and retail time deposits in the average balance of our total deposits from customers increased from 55.8% in 2011 to 57.0% in 2012, with the average cost of our corporate and retail time deposits being higher than that of our corporate and retail demand deposits.

Interest expense on corporate deposits increased by 30.0% to RMB25,250 million in 2012 compared to RMB19,421 million in 2011, primarily due to (i) an increase in the average balance by 11.3% to RMB1,016,798 million in 2012 compared to RMB913,848 million in 2011, and (ii) an increase in the average cost to 2.48% in 2012 compared to 2.13% in 2011. The increase in the average balance was primarily due to our marketing efforts to promote our innovative products, such as the cash management and enterprise annuity products, to attract corporate deposits. The increase in the average cost of our corporate deposits was primarily due to (i) the rise of the interest rate ceiling of deposits to 110% of the PBOC benchmark deposit interest rate since June 8, 2012, and (ii) an increase in the proportion of our corporate time deposits in our total corporate deposits, which had a higher average cost than the corporate demand deposits.

Interest expense on retail deposits increased by 48.7% to RMB4,110 million in 2012 compared to RMB2,764 million in 2011, primarily due to (i) an increase in the average balance by 17.7% to RMB187,014 million in 2012 compared to RMB158,900 million in 2011, and (ii) an increase in the average cost to 2.20% in 2012 compared to 1.74% in 2011. The increase in the average balance was primarily due to (i) our efforts to promote innovative products to attract retail deposits, and (ii) our continued network expansion. The increase in the average cost was primarily due to (i) the rise of the interest rate ceiling of deposits in 2012, and (ii) the increase in the proportion of our retail deposits with longer maturity terms which had higher interest rates.

Interest expense on structured deposits significantly increased by 89.5% to RMB2,390 million in 2012 compared to RMB1,261 million in 2011, primarily due to (i) an increase in the average balance by 85.9% to RMB79,463 million in 2012 compared to RMB42,750 million in 2011, and (ii) an increase in the average cost to 3.01% in 2012 compared to 2.95% in 2011. The average balance of our structured deposits increased, primarily reflecting the innovation of our wealth management products and expansion of our wealth management business. The average cost of our structured deposits increased mainly because we offered our customer higher yields in order to expand our customer base in light of the intensified competition in this market.

2011 Compared to 2010. Interest expense on total deposits from customers increased by 61.1% to RMB23,446 million in 2011 compared to RMB14,554 million in 2010, primarily due to an increase of 19.3% in the average balance, coupled with an increase in the average cost to 2.10% in 2011 compared to 1.56% in 2010. The increase in the average balance of total deposits from customers was primarily due to our continued efforts in expanding our deposit customer base and our branch network. The increase in the average cost on our total deposits from customers was primarily due to (i) the impact of the increases in the PBOC benchmark interest rates since the second half of 2010, and (ii) the increase in the proportion of the average balance of corporate and retail time deposits to the average balance of our total deposits from customers from 54.3% in 2010 to 55.8% in 2011, with the average cost on our corporate and retail time deposits being higher than our corporate and retail demand deposits.

Interest expense on corporate deposits increased by 59.8% to RMB19,421 million in 2011 compared to RMB12,151 million in 2010, due to (i) an increase in the average balance by 17.4% to RMB913,848 million in 2011 compared to RMB778,587 million in 2010, and (ii) an increase in the average cost to 2.13% in 2011 compared to 1.56% in 2010. The increase in the average balance was primarily due to our strengthened marketing efforts in corporate deposits. The increase in the average cost of our corporate deposits was primarily due to (i) the impact of the increases in the PBOC benchmark interest rate since the second half of 2010, and (ii) an increase in the proportion of our corporate time deposits in our total corporate deposits, which resulted in a higher average cost on our total corporate deposits.

Interest expense on retail deposits increased by 39.7% to RMB2,764 million in 2011 compared to RMB1,978 million in 2010, primarily due to (i) an increase in the average balance by 16.7% to RMB158,900 million in 2011 compared to RMB136,136 million in 2010, and (ii) an increase in the average cost to 1.74% in 2011 compared to 1.45% in 2010. The increase in the average cost was primarily due to the multiple increases of the PBOC benchmark interest rates since the second half of 2010, the effect of which was partially offset by an increase in the proportion of our retail demand deposits, which have a lower average cost compared to our retail time deposits.

Interest expense on structured deposits significantly increased by 196.7% to RMB1,261 million in 2011 compared to RMB425 million in 2010, primarily due to (i) a significant increase of 109.3% in the average balance to RMB42,750 million in 2011 compared to RMB20,423 million in 2010, and (ii) a significant increase in the average cost to 2.95% in 2011 compared to 2.08% in 2010. The increase in the average balance of our structured deposits was primarily due to (i) the increased market demand for such products and (ii) our enhanced marketing efforts for structured deposits, with the aim of obtaining more high net-worth customers. The increase in the average cost of our structured deposits was primarily due to the impact of the overall increase in market interest rates.

Interest Expense on Deposits from Banks and Other Financial Institutions

2012 Compared to 2011. Interest expense on deposits from banks and other financial institutions increased by 45.7% to RMB16,890 million in 2012 compared to RMB11,593 million in 2011, primarily due to an increase in the average balance by 57.2% to RMB403,044 million in 2012 compared to RMB256,435 million in 2011, partially offset by the decrease in the average cost from 4.52% in 2011 to 4.19% in 2012. The increase in the average balance of our deposits from banks and other financial institutions was primarily because we adjusted our overall liabilities structure to obtain funds at lower costs while meeting our liquidity needs. The decrease in the average cost of our deposits from banks and other financial institutions was primarily due to a decrease in the interest rate of the PRC inter-bank money market.

2011 Compared to 2010. Interest expense on deposits from banks and other financial institutions increased by 73.0% to RMB11,593 million in 2011 compared to RMB6,702 million in 2010, primarily due to a significant increase in the average cost to 4.52% in 2011 compared to 2.36% in 2010, partially offset by a decrease in the average balance by 9.8% to RMB256,435 million in 2011 compared to RMB284,157 million in 2010. The significant increase in the average cost of our deposits from banks and other financial institutions was primarily due to the increase in the inter-bank interest rates in the PRC inter-bank money market. The decrease in the average balance of our deposits from banks and other financial institutions was due to a more optimized asset-liability allocation.

Interest Expense of Financial Assets Sold under Repurchase Agreements and Placements from Banks and Other Financial Institutions

2012 Compared to 2011. Interest expense on financial assets sold under repurchase agreements and placements from banks and other financial institutions increased by 28.7% to RMB3,419 million in 2012 compared to RMB2,656 million in 2011, primarily due to an increase in the average balance by 32.0% to RMB101,703 million in 2012 compared to RMB77,057 million in 2011, partially offset by a decrease in the average cost to 3.36% in 2012 compared to 3.45% in 2011. The average balance of our financial assets sold under repurchase agreements and placements from banks and other financial institutions increased in 2012 mainly because we adjusted our overall liabilities structure to obtain funds at lower costs while meeting our liquidity needs. The decrease in the average cost of our financial assets sold under repurchase agreements and placements from banks and other financial institutions was primarily due to a decrease in the interest rate of the PRC inter-bank money market.

2011 Compared to 2010. Interest expense on financial assets sold under repurchase agreements and placements from banks and other financial institutions increased by 69.1% to RMB2,656 million in 2011 compared to RMB1,571 million in 2010, primarily due to a significant increase in the average cost to 3.45% in 2011 compared to 2.13% in 2010, coupled with a slight increase in the average balance by 4.5% to RMB77,057 million in 2011 compared to RMB73,706 million in 2010. The significant increase in the average cost of our financial assets sold under repurchase agreements and placements from banks and other financial institutions was primarily due to increases in market interest rates as a result of the increases in the PBOC benchmark interest rate and the adjustment of the PBOC's monetary policy since the second half of 2010.

Net Interest Spread and Net Interest Margin

2012 Compared to 2011. Our net interest spread increased to 2.34% in 2012 compared to 2.30% in 2011, primarily due to an increase of 37 basis points in the average yield on our interest-earning assets to 5.29% in 2012 compared to 4.92% in 2011, partially offset by an increase of 33 basis points in the average cost of our interest-bearing liabilities to 2.95% in 2012 compared to 2.62% in 2011. Our net interest margin increased by 5 basis points to 2.54% in 2012 compared to 2.49% in 2011, because our net interest income increased by 27.4% while the average balance of our interest-earning assets increased at a slower rate by only 24.4% in 2012 compared to 2011. The increases in our net interest spread and net interest margin were primarily due to the following reasons: (i) we further optimized our loan portfolio by allocating more fund resources to products with higher yields and improved our loan pricing power; and (ii) the increase in the average yield on our interest-earning assets exceeded the increase in the average cost on our interest-bearing liabilities.

2011 Compared to 2010. Our net interest spread increased to 2.30% in 2011 compared to 2.06% in 2010, primarily due to an increase of 105 basis points in the average yield on our interest-earning assets to 4.92% in 2011 compared to 3.87% in 2010, which was partially offset by an increase of 81 basis points in the average cost of our interest-bearing liabilities to 2.62% in 2011 compared to 1.81% in 2010. Our net interest margin increased by 32 basis points to 2.49% in 2011 compared to 2.17% in 2010, because our net interest income increased by 29.6% while the average balance of our interest-earning assets increased at a slower rate by only 13.4% in 2011 compared to 2010. The increases in our net interest spread and net interest margin were primarily due to the following reasons: (i) our further improvement of our loan portfolio through the increase of SME loans which have higher yields and the expansion of our retail banking business, (ii) greater loan pricing power as a result of the increase in the upward fluctuation rate of new loans and term repricing loans, (iii) the increase in the benchmark interest rate of the PBOC and (iv) the overall increase in the inter-bank market interest rate.

Net Fee and Commission Income

Net fee and commission income represented 13.2%, 15.1% and 15.8% of our total operating income for the years ended December 31, 2010, 2011 and 2012, respectively. The following table sets forth, for the years indicated, the principal components of our net fee and commission income.

	For the year ended December 31,		
	2010	2011	2012
	(in millions of RMB)		
Fee and commission income			
Bank card service fees	988	1,808	3,360
Underwriting and advisory fees	997	1,443	1,594
Settlement and clearing fees	940	1,376	1,405
Wealth management service fees	948	993	1,547
Acceptance and guarantee fees	486	649	610
Agency service fees	339	505	651
Custody and other fiduciary business fees	193	352	558
Others[(1)]	190	255	269
Subtotal	5,081	7,381	9,994
Fee and commission expenses	(372)	(408)	(515)
Net fee and commission income	**4,709**	**6,973**	**9,479**

Note:

(1) Primarily consist of management fees from trade finance limits and fees from leasing business.

Our net fee and commission income increased by 35.9% to RMB9,479 million in 2012 compared to RMB6,973 million in 2011, which in turn increased by 48.1% compared to RMB4,709 million in 2010. These increases were mainly due to the increase in bank card service fees, wealth management service fees, custody and other fiduciary business fees and underwriting and advisory fees.

Bank Card Service Fees

Bank card service fees increased by 85.8% to RMB3,360 million in 2012 compared to RMB1,808 million in 2011, which in turn increased by 83.0% compared to RMB988 million in 2010. The overall significant increase in bank card service fees from 2010 to 2012 was primarily due to an increase in transaction fees received from our credit card holders as a result of the (i) significant increases in the number of credit cards issued by us and the transaction volume of our credit card holders and (ii) our increasing focus on products with higher yields.

Underwriting and Advisory Fees

Underwriting and advisory fees increased to RMB1,594 million in 2012 compared to RMB1,443 million in 2011, which in turn increased from RMB997 million in 2010. The overall increase from 2010 to 2012 was primarily due to the continued efforts to develop our investment banking business. However, the increase in the fees from 2011 to 2012 slowed down primarily because we adjusted our fee rates in light of the market and regulatory conditions.

Settlement and Clearing Fees

Settlement and clearing fees slightly increased by 2.1% to RMB1,405 million in 2012 compared to RMB1,376 million in 2011, which in turn increased by 46.4% compared to RMB940 million in 2010. The significant increase in settlement and clearing fees in 2011 was primarily due to increases in the number of customers and the transaction volume as a result of our continued marketing and product development efforts in respect of our settlement and cash management business. The increase in 2012 slowed down primarily because we adjusted our fee rates in light of the market and regulatory conditions.

Wealth Management Service Fees

Wealth management service fees increased by 55.8% to RMB1,547 million in 2012 compared to RMB993 million in 2011, primarily due to the launch of our new wealth management products in 2012. The fees in turn slightly increased by 4.7% from RMB948 million in 2010, primarily because we adjusted our fee rates in light of the market and regulatory conditions.

Acceptance and Guarantee Fees

Acceptance and guarantee fees decreased by 6.0% to RMB610 million in 2012 compared to RMB649 million in 2011, primarily because we adjusted our fee rates in light of the market and regulatory conditions. The fees in turn increased by 33.5% from RMB486 million in 2010, primarily due to the growth of our loan commitment and bank acceptance bills business.

Agency Service Fees

Agency service fees amounted to RMB651 million in 2012, RMB505 million in 2011 and RMB339 million in 2010. The increase from 2010 to 2012 was primarily due to the substantial development of our agency services in connection with the distribution of insurance, mutual fund products, trust business, debt securities as well as agency trading of gold.

Custody and Other Fiduciary Business Fees

Custody and other fiduciary business fees increased by 58.5% to RMB558 million in 2012 from RMB352 million in 2011, which in turn increased by 82.4% from RMB193 million in 2010, primarily due to an increase in the amount of assets under our custody attributable to our increased marketing efforts to key customers.

Other Fees

In 2012, our income from other fees was RMB269 million, representing an increase of 5.5% compared to RMB255 million in 2011, which in turn represented an increase of 34.2% compared to RMB190 million in 2010. The overall increase from 2010 to 2012 was primarily due to increases in the fees from our leasing business. However, the increase in other fees from 2011 to 2012 slowed down primarily because we adjusted our fee rates in light of the market and regulatory conditions.

Fee and Commission Expenses

Fee and commission expenses increased by 26.2% to RMB515 million in 2012 from RMB408 million in 2011, which in turn increased by 9.7% from RMB372 million in 2010. The increase from 2010 to 2012 was primarily due to an increase in fee expenses incurred by inter-bank transactions of our bank cards.

Other Net Income/(Loss)

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

	For the year ended December 31,		
	2010	2011	2012
	(in millions of RMB)		
Net gain/(loss) arising from investment securities	326	(115)	75
Net trading loss	(347)	(1,063)	(238)
Foreign exchange gain	360	760	208
Other operating income	257	203	283
Total other net income/(loss)	**596**	**(215)**	**328**

2012 Compared to 2011. We recorded other net income of RMB328 million in 2012 compared to a net loss of RMB215 million in 2011, primarily due to (i) a net gain arising from investment securities, as compared to a net loss in 2011, (ii) a smaller net trading loss in 2012 as compared to 2011, and (iii) an increase in the other operating income in 2012 as compared to 2011, partially offset by a decrease in the foreign exchange gain as compared to the foreign exchange gain in 2011.

2011 Compared to 2010. We recorded other net loss of RMB215 million in 2011 compared to a net income of RMB596 million in 2010, primarily due to (i) a net loss arising from investment securities compared to a net gain in 2010, and (ii) a larger net trading loss in 2011 compared to in 2010, partially offset by an increase in foreign exchange gain in 2011.

Net Gain/(Loss) Arising from Investment Securities

We recorded net gains on investment securities of RMB75 million and RMB326 million in 2012 and 2010, respectively, whereas we recorded a net loss arising from investment securities of RMB115 million in 2011. The net gain on investment securities in 2012 was primarily due to (i) our investment in new investment securities products in 2012, and (ii) the gains on the disposal of our investment securities as a result of price increases in these investment securities. The net loss on investment securities in 2011 was primarily due to the disposal of a portion of our debt securities, the prices of which declined as a result of the rises in the market interest rates in response to the increases in the PBOC benchmark interest rate since the second half of 2010. Our net gain arising from investment securities in 2010 was primarily due to the gains on the disposal of RMB-denominated bonds.

Net Trading Loss

We recorded a net trading loss of RMB238 million, RMB1,063 million and RMB347 million in 2012, 2011 and 2010, respectively. The net trading loss in 2011 and 2010 were primarily due to loss from the revaluation of the fair value of (i) the interest rate swap products held by us and (ii) foreign exchange swap products held by us. The net trading loss in 2012 was primarily due to the decrease in the fair value of short-term securities investments as the market expected that the interest rates would remain stable or increase since the second half of 2012.

Net Foreign Exchange Gain

We recorded a net foreign exchange gain of RMB208 million, RMB760 million and RMB360 million in 2012, 2011 and 2010, respectively. The decrease in foreign exchange gain in 2012 compared to 2011 was primarily because we recorded loss arising from the revaluation of the fair value of certain foreign exchange swaps products upon their maturity at the end of 2012, which was recognized as foreign exchange loss. The increase in foreign exchange gain in 2011 compared to 2010 was primarily because (i) according to the nature of the foreign exchange swap products, for which we recorded net trading loss in 2011, we recorded the corresponding foreign exchange gain from these products, and (ii) our foreign exchange settlement business grew rapidly and the Renminbi continued to appreciate against other currencies along with the PRC government's implementation of foreign exchange rate reform.

Other Operating Income

We recorded other operating income of RMB283 million, RMB203 million and RMB257 million in 2012, 2011 and 2010, respectively. The increase in other operating income in 2012 compared to 2011 was primarily due to (i) an increase of RMB30 million in other income from business operation, (ii) an increase of RMB17 million in investment property rental income and (iii) an increase of RMB12 million in the gain from disposal of non-liquidity assets. The decrease in our other operating income in 2011 compared to 2010 was mainly due to a decrease in our income from suspended deposit accounts.

Operating Expenses

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

	For the year ended December 31,		
	2010	2011	2012
	(in millions of RMB, except percentages)		
Staff costs	7,417	8,599	10,401
Other general and administrative expenses	3,480	3,985	4,926
Business tax and surcharges	2,431	3,448	4,551
Depreciation and amortization	877	1,117	1,394
Rental and property management expenses	921	1,140	1,413
Total operating expenses	**15,126**	**18,289**	**22,685**
Cost-to-income ratio[(1)]	**35.53%**	**32.12%**	**30.19%**

Note:

(1) Calculated by dividing total operating expenses (excluding business tax and surcharges) by total operating income, prepared under IFRS.

Our operating expenses increased by 24.0% to RMB22,685 million in 2012 compared to RMB18,289 million in 2011, which in turn increased by 20.9% from RMB15,126 million in 2010. Our cost-to-income ratio (excluding business tax and surcharges) was 30.19%, 32.12% and 35.53% in 2012, 2011 and 2010, respectively. The overall increase in our operating expenses from 2010 to 2012 was primarily due to the expansion of our branch network, the increase in the number of our employees and the growth of our business, which in turn increased our staff costs, other general and administrative expenses and business tax and surcharges during these periods. The overall decrease in our cost-to-income ratio from 2010 to 2012 was primarily due to a greater increase in our operating income than that of our operating expenses during this period.

Staff Costs

Staff costs are the largest component of our operating expenses, representing 49.0%, 47.0% and 45.8% of our operating expenses for the years ended December 31, 2010, 2011 and 2012, respectively.

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

	For the year ended December 31,		
	2010	2011	2012
	(in millions of RMB)		
Salaries, bonuses and staff allowances	6,183	6,978	8,497
Others[(1)]	1,234	1,621	1,904
Total staff costs	**7,417**	**8,599**	**10,401**

Note:

(1) Primarily consist of pension and enterprise annuity, housing allowances and supplementary retirement benefits.

Staff costs increased by 21.0% to RMB10,401 million in 2012 compared to RMB8,599 million in 2011, which in turn increased by 15.9% compared to RMB7,417 million in 2010, primarily due to the increase in the number of our employees, which was in line with our business expansion.

Other General and Administrative Expenses

Other general and administrative expenses increased by 23.6% to RMB4,926 million in 2012 compared to RMB3,985 million in 2011, which in turn increased by 14.5% from RMB3,480 million in 2010, primarily due to our business expansion.

Business Tax and Surcharges

Business tax is levied at 5% primarily on our interest income from loans and advances to customers and our gross fee and commission income. In addition, aggregate surcharges of up to 15.6% of the amount of our business tax paid are levied, depending on the locality. Business tax and surcharges increased by 32.0% to RMB4,551 million in 2012 compared to RMB3,448 million in 2011, which in turn increased by 41.8% from RMB2,431 million in 2010, primarily due to an increase in our interest income and fee and commission income subject to business tax and surcharges.

Depreciation and Amortization

Depreciation and amortization increased by 24.8% to RMB1,394 million in 2012 compared to RMB1,117 million in 2011, which in turn increased by 27.4% compared to RMB877 million in 2010, primarily due to the increases in the amount of depreciation of fixed assets and the amortization of long-term assets as a result of the continued expansion of our branch network.

Rental and Property Management Expenses

Rental and property management expenses increased by 23.9% to RMB1,413 million in 2012 from RMB1,140 million in 2011, which in turn increased by 23.8% compared to RMB921 million in 2010, primarily due to the continued expansion of our branch network.

Impairment Losses on Assets

Impairment losses on assets increased by 56.7% to RMB5,795 million in 2012 compared to RMB3,698 million in 2011, primarily due to the significant increase in impairment losses on loans and advances to customers, partially offset by the decreases in impairment losses on held-to-maturity investments and other receivables. The following table sets forth, for the years indicated, the principal components of our impairment losses on assets.

	For the year ended December 31,		
	2010	2011	2012
	(in millions of RMB)		
Impairment losses on:			
Loans and advances to customers	3,254	3,420	5,690
Held-to-maturity investments	50	143	30
Available-for-sale financial assets	9	–	–
Other receivables	116	57	(40)
Financial leasing receivables	28	86	82
Other assets[1]	34	(8)	33
Total	**3,491**	**3,698**	**5,795**

Note:

(1) Primarily consist of impairment losses on interest receivables and deposits and placements with banks and other financial institutions.

Allowance for impairment losses primarily consists of allowance on loans and other assets. Impairment losses on our loans and advances to customers increased by 66.4% to RMB5,690 million in 2012 compared to RMB3,420 million in 2011, which in turn increased by 5.1% from RMB3,254 million in 2010. The significant increase in impairment losses on our loans and advances to customers in 2012 as compared to 2011 was primarily due to (i) the overall increase in the balance of our loans and advances to customers during this period, and (ii) an increase in the level of our allowance made for the relevant loan portfolios based on our assessment of the risks associated with certain loans.

For details on changes in our allowance for loans and advances to customers, see "Assets and Liabilities – Assets – Allowance for Impairment Losses on Loans and Advances to Customers."

Income Tax

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

	For the year ended December 31,		
	2010	2011	2012
	(in millions of RMB, except percentages)		
Profit before tax	**17,111**	**24,211**	**31,590**
Income tax at statutory rate[1]	4,278	6,053	7,898
Non-deductible expenses[2]	299	306	588
Non-taxable income[3]	(264)	(361)	(548)
Adjustment for prior years	4	128	32
Income tax	**4,317**	**6,126**	**7,970**
Effective tax rate	**25.23%**	**25.30%**	**25.23%**

Notes:

(1) 25% during each of the years ended December 31, 2010, 2011 and 2012.

(2) Primarily consist of non-deductible staff costs and other operating expenses.

(3) Primarily consists of interest income from PRC central government bonds.

Our income tax expense increased by 30.1% to RMB7,970 million in 2012 from RMB6,126 million in 2011, which in turn increased by 41.9% from RMB4,317 million in 2010, which was generally in line with the growth rate of our profit before tax. Our effective income tax rates in 2010, 2011 and 2012 were 25.23%, 25.30% and 25.23%, respectively, which in each year was slightly higher than the statutory income tax rate.

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

	For the year ended December 31,		
	2010	2011	2012
	(in millions of RMB)		
Current income tax	4,758	6,691	8,512
Deferred income tax	(445)	(693)	(574)
Adjustment for prior years	4	128	32
Income tax	**4,317**	**6,126**	**7,970**

Net Profit

Primarily as a result of all the foregoing factors, our net profit increased by 30.6% to RMB23,620 million in 2012 compared to RMB18,085 million in 2011, which in turn increased by 41.4% from RMB12,794 million in 2010.

SUMMARY SEGMENT OPERATING RESULTS

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

Internal charges and transfer prices are determined with reference to market rates and are reflected in the performance of each segment. Interest income and expense earned from independent third parties are referred to as "external net interest income/(expense)." Net interest income and expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/(expense)."

Summary Business Segment Information

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

Six Months Ended June 30, 2013 Compared to Six Months Ended June 30, 2012

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

	For the six months ended June 30,									
	2012					2013				
	Corporate banking	Retail banking	Treasury operations	Others	Total	Corporate banking	Retail banking	Treasury operations	Others	Total
			(unaudited)							
					(in millions of RMB)					
External net interest income[1]	13,821	5,599	5,888	–	25,308	12,367	7,677	6,010	–	26,054
Internal net interest income/(expense)[2]	4,059	(347)	(3,712)	–	–	6,060	(2,453)	(3,607)	–	–
Net interest income	**17,880**	**5,252**	**2,176**	**–**	**25,308**	**18,427**	**5,224**	**2,403**	**–**	**26,054**
Net fee and commission income	**2,250**	**2,611**	**77**	**–**	**4,938**	**2,660**	**4,613**	**76**	**–**	**7,349**
Other net income/(loss)	190	97	(55)	53	285	196	47	136	56	435
Total operating income	**20,320**	**7,960**	**2,198**	**53**	**30,531**	**21,283**	**9,884**	**2,615**	**56**	**33,838**
Operating expenses	(6,759)	(3,873)	(160)	(10)	(10,802)	(7,361)	(4,494)	(291)	(14)	(12,160)
Impairment losses on assets	(1,796)	(635)	(8)	–	(2,439)	(1,324)	(960)	34	–	(2,250)
Profit before tax	**11,765**	**3,452**	**2,030**	**43**	**17,290**	**12,598**	**4,430**	**2,358**	**42**	**19,428**

Notes:

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

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

The increases in profit before tax for our corporate banking business and retail banking business were in line with our overall business expansion.

The profit before tax for our corporate banking business increased by 7.1% to RMB12,598 million for the six months ended June 30, 2013 compared to RMB11,765 million for the six months ended June 30, 2012, primarily due to an increase in net interest income, partially offset by an increase in operating expenses.

The profit before tax for our retail banking business increased by 28.3% to RMB4,430 million for the six months ended June 30, 2013 compared to RMB3,452 million for the six months ended June 30, 2012, primarily due to an increase in external net interest income and net fee and commission income, partially offset by increases in operating expenses and impairment losses on assets.

The profit before tax for our treasury operations increased by 16.2% to RMB2,358 million for the six months ended June 30, 2013 compared to RMB2,030 million for the six months ended June 30, 2012, primarily due to an increase in net interest income and other net income and a decrease in impairment losses on assets.

Years Ended December 31, 2010, 2011 and 2012

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

	For the year ended December 31,														
	2010					2011					2012				
	Corporate banking	Retail banking	Treasury operations	Others	Total	Corporate banking	Retail banking	Treasury operations	Others	Total	Corporate banking	Retail banking	Treasury operations	Others	Total
	(in millions of RMB)														
External net interest income[1]	16,111	6,688	7,624	–	30,423	19,069	9,374	10,997	–	39,440	25,586	12,686	11,991	–	50,263
Internal net interest income/ (expense)[2]	6,559	(678)	(5,881)	–	–	9,095	(629)	(8,466)	–	–	10,536	(2,115)	(8,421)	–	–
Net interest income	**22,670**	**6,010**	**1,743**	**–**	**30,423**	**28,164**	**8,745**	**2,531**	**–**	**39,440**	**36,122**	**10,571**	**3,570**	**–**	**50,263**
Net fee and commission income	**2,566**	**2,129**	**14**	**–**	**4,709**	**3,604**	**3,267**	**102**	**–**	**6,973**	**3,928**	**5,419**	**132**	**–**	**9,479**
Other net income/(loss)	317	61	171	47	596	292	67	(643)	69	(215)	460	(1)	(250)	119	328
Total operating income	**25,553**	**8,200**	**1,928**	**47**	**35,728**	**32,060**	**12,079**	**1,990**	**69**	**46,198**	**40,510**	**15,989**	**3,452**	**119**	**60,070**
Operating expenses	(9,445)	(5,538)	(105)	(38)	(15,126)	(11,482)	(6,594)	(179)	(34)	(18,289)	(13,925)	(8,268)	(449)	(43)	(22,685)
Impairment losses on assets	(2,576)	(856)	(59)	–	(3,491)	(3,252)	(303)	(143)	–	(3,698)	(4,431)	(1,334)	(30)	–	(5,795)
Profit before tax	13,532	1,806	1,764	9	17,111	17,326	5,182	1,668	35	24,211	22,154	6,387	2,973	76	31,590

Notes:

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

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

Our corporate banking business recorded a profit before tax of RMB13,532 million in 2010, RMB17,326 million in 2011 and RMB22,154 million in 2012, representing a CAGR of 28.0%. The increase in the profit before tax in 2012 compared to 2011 was primarily due to the increases in net interest income and net fee and commission income, partially offset by the increases in operating expenses and impairment losses on assets. Impairment losses on assets in our corporate banking business increased to RMB4,431 million in 2012 compared to RMB3,252 million in 2011, primarily due to (i) an increase in the balance of our corporate loans during this period, and (ii) an increase in the level of our allowance made for the relevant loan portfolios based on our assessment of the risks associated with certain loans. The increase in the profit before tax in 2011 compared to 2010 was primarily due to substantial increases in net interest income and net fee and commission income, partially offset by increases in operating expenses and impairment losses on assets. Impairment losses on assets in our corporate banking business increased to RMB3,252 million in 2011 compared to RMB2,576 million in 2010, primarily due to an increase in the balance of our corporate loans.

Our retail banking recorded a profit before tax of RMB 6,387 million in 2012, an increase of 23.3% compared to RMB5,182 million in 2011, primarily due to the increases in net interest income and net fee and commission income, partially offset by the increases in operating expenses and impairment losses on assets. The increases in the net interest income, net fee and commission income and operating expenses from our retail banking business were generally in line with the overall expansion of our retail banking business. Impairment losses on assets in our retail banking business significantly increased to RMB1,334 million in 2012 compared to RMB303 million in 2011, primarily due to (i) an increase in the balance of our retail loans, and (ii) an increase in our level of allowance for impairment losses made for retail loans based on our overall assessment of the risks associated with retail loans. Our retail banking recorded a profit before tax of RMB5,182 million in 2011, an increase of 186.9% compared to RMB1,806 million in

2010, primarily due to (i) a significant increase in net interest income, (ii) a significant increase in net fee and commission income and (iii) a decrease in impairment losses on assets, partially offset by an increase in operating expenses. The increase in the net interest income from our retail loans was primarily due to (i) our efforts to expand our retail banking business, (ii) the adjustment of our retail banking product mix by allocating more resources to our personal business loans and commercial property mortgage loans, which carry higher interest rates and (iii) the impact of increases in the benchmark interest rate by the PBOC since the second half of 2010. Impairment losses on assets in our retail banking business decreased by 64.6% to RMB303 million in 2011 compared to RMB856 million in 2010, primarily due to the improvement of the asset quality of our retail loans.

Our treasury operations business recorded a profit before tax of RMB2,973 million in 2012, a significant increase of 78.2% compared to RMB1,668 million in 2011, primarily due to (i) an increase in the net interest income, (ii) a decrease in other net loss and (iii) a decrease in impairment losses on assets, partially offset by the increases in operating expenses. Net interest income of our treasury operations increased by 41.1% to RMB3,570 million in 2012 compared to RMB2,531 million in 2011, primarily due to an increase in the interest income from the investments. Our treasury operations business recorded a profit before tax of RMB1,668 million in 2011, a decrease of 5.4% compared to RMB1,764 million in 2010, primarily due to a decrease in other net income and increases in operating expenses and impairment losses on assets, partially offset by an increase in interest income from our treasury operations.

Summary Geographical Segment Information

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

	For the year ended December 31,						For the six months ended June 30,			
	2010		2011		2012		2012		2013	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
							(unaudited)			
	(in millions of RMB, except percentages)									
Head Office[1]	2,708	7.6%	5,477	11.8%	9,602	16.0%	5,372	17.6%	6,343	18.7%
Yangtze River Delta	8,496	23.8	10,017	21.7	11,982	19.9	6,032	19.7	6,347	18.8
Bohai Rim	8,090	22.6	9,784	21.2	11,721	19.5	5,794	19.0	6,513	19.2
Central	4,965	13.9	6,336	13.7	8,259	13.7	4,096	13.4	4,426	13.1
Pearl River Delta	4,697	13.1	6,086	13.2	7,603	12.7	3,867	12.7	4,094	12.1
Northeastern	2,321	6.5	3,005	6.5	3,714	6.2	1,858	6.1	1,879	5.6
Western	4,451	12.5	5,493	11.9	7,189	12.0	3,512	11.5	4,221	12.5
Hong Kong	–	–	–	–	–	–	–	–	15	0.0
Total operating income	**35,728**	**100.0%**	**46,198**	**100.0%**	**60,070**	**100.0%**	**30,531**	**100.0%**	**33,838**	**100.0%**

Note:

(1) Includes operating income from our treasury operation and income from our credit card business.

Our operating income generated in the regions of Yangtze River Delta, Bohai Rim and Pearl River Delta together represented 51.4% and 50.1% of our total operating income for the six months ended June 30, 2012 and for the six months ended June 30, 2013, respectively. Our operating income from our Head

Office increased by 18.1% to RMB6,343 million for the six months ended June 30, 2013 from RMB5,372 million for the six months ended June 30, 2012, primarily due to the expansion of our credit card business.

Our operating income generated in the regions of Yangtze River Delta, Bohai Rim and Pearl River Delta together represented 59.5%, 56.1% and 52.1% of our operating income for the years ended December 31, 2010, 2011 and 2012, respectively. Our operating income from our Head Office increased by 75.3% to RMB9,602 million in 2012 from RMB5,477 million in 2011, which in turn increased by 102.3% from RMB2,708 million in 2010. The overall increase in our operating income from our Head Office from 2010 to 2012 was primarily due to the continued expansion of our credit card business.

CASH FLOWS

The following table sets forth our cash flows for the periods indicated.

	For the year ended December 31,			For the six months ended June 30,	
	2010	2011	2012	2012	2013
				(unaudited)	
	(in millions of RMB)				
Net cash flows from/(used in) operating activities	13,660	46,333	272,005	(11,660)	75,640
Net cash flows (used in)/from investing activities	(52,152)	24,196	(321,031)	(60,230)	(96,660)
Net cash flows from/(used in) financing activities	13,816	(4,410)	30,402	30,823	(12,434)
Effect of foreign exchange rate changes on cash and cash equivalents	(147)	(539)	(108)	86	(257)
Net (decrease)/increase in cash and cash equivalents	**(24,823)**	**65,580**	**(18,732)**	**(40,981)**	**(33,711)**

Cash Flows from Operating Activities

Cash inflows from our operating activities are primarily attributable to changes in (i) deposits from customers and (ii) deposits from banks and other financial institutions. We had a net increase in deposits from customers of RMB255,551 million, RMB162,100 million, RMB201,663 million and RMB127,750 million, for the years ended December 31, 2010, 2011 and 2012 and for the six months ended June 30, 2013, respectively. For the year ended December 31, 2010, the net decrease in deposits from banks and other financial institutions was RMB34,046 million. The net increase in deposits from banks and other financial institutions for the years ended December 31, 2011 and 2012 and for the six months ended June 30, 2013 was RMB73,413 million, RMB256,934 million and RMB36,561 million, respectively. To a lesser extent, cash inflows from our operating activities are also attributable to changes in financial assets sold under repurchase agreements. For the years ended December 31, 2011 and 2012, the net increase in financial assets sold under repurchase agreements was RMB28,050 million and RMB33,798 million, respectively. For the year ended December 31, 2010 and for the six months ended June 30, 2013, the net decrease in financial assets sold under repurchase agreements was RMB1,981 million and RMB2,281 million, respectively.

Cash outflows from our operating activities are primarily attributable to changes in loans and advances to customers, which had a net increase of RMB131,341 million, RMB112,186 million, RMB134,003 million and RMB83,644 million for the years ended December 31, 2010, 2011 and 2012 and for the six months ended June 30, 2013, respectively. For a discussion of increases in our loans and advances to customers from December 31, 2010 to June 30, 2013, see "Assets and Liabilities – Assets – Loans and Advances to Customers." To a lesser extent, cash outflows from our operating activities are also attributable to changes in (i) deposits with the central bank, banks and other financial institutions, (ii) placements with banks and other financial institutions and (iii) the net increase in financial assets held under resale agreements. The net increase in deposits with the central bank, banks and other financial institutions for the years ended December 31, 2010, 2011 and 2012 and for the six months ended June 30, 2013 was RMB33,592 million, RMB59,764 million, RMB37,475 million and RMB54,434 million, respectively. The net increase in placements with banks and other financial institutions for the years ended December 31, 2010, 2011 and 2012 and for the six months ended June 30, 2013 was RMB7,079 million, RMB27,463 million, RMB34,083 million and RMB33,435 million, respectively. The net increase in financial assets held under resale lease for the years ended December 31, 2010, 2011 and 2012 was RMB49,277 million, RMB37,829 million and RMB23,764 million, respectively. We had a net decrease in financial assets held under resale lease for the six months ended June 30, 2013 of RMB50,230 million.

For the six months ended June 30, 2013, we had a net cash inflow from operating activities of RMB75,640 million, in contrast to a net cash outflow of RMB11,660 million for the six months ended June 30, 2012. The increase in our cash inflows from our operating activities was primarily due to increases in deposits from customers and in placements from banks and other financial institutions. The increase in our cash outflows from our operating activities was primarily due to increases in loans and advances to customers and in deposits with the central bank, banks and other financial institutions.

Our net cash inflows from operating activities increased to RMB272,005 million in 2012 compared to RMB46,333 million in 2011, primarily due to an increase in our operating liabilities by 112.2% to RMB482,702 million in 2012 from RMB227,514 million in 2011, partially offset by an increase in our operating assets by 18.5% to RMB251,445 million in 2012 from RMB212,180 million in 2011. The increase in our operating liabilities was primarily due to the greater amount of net increase in deposits from banks and other financial institutions and the greater amount of net increase in deposits from customers. The increase in our operating assets was primarily due to the greater amount of net increase in loans and advances to customers and an increase in other operating assets.

Our net cash inflows from operating activities increased to RMB46,333 million in 2011 compared to RMB13,660 million in 2010, primarily due to (i) an increase in our operating liabilities by 6.7% to RMB227,514 million in 2011 from RMB213,180 million in 2010, and (ii) a decrease in operating assets by 4.4% to RMB212,180 million in 2011 from RMB221,844 million in 2010. The increase in operating liabilities was primarily due to the greater amount of net increase in deposits from banks and other financial institutions and the greater amount of net increase in financial assets sold under repurchase agreements, partially offset by the lesser amount of net increase in deposits from customers. The decrease in operating assets from our operating activities was primarily due to the lesser amount of net increase in loans and advances to customers and the lesser amount of net increase in financial assets held under resale agreements.

Cash Flows from Investing Activities

Cash inflows from our investing activities are primarily attributable to the proceeds from disposals and redemptions of our investments. The proceeds from disposal and redemption of investments for the years ended December 31, 2010, 2011 and 2012 and for the six months ended June 30, 2013 amounted to RMB280,879 million, RMB424,752 million, RMB326,171 million and RMB163,421 million, respectively.

Our cash outflows from investing activities are primarily attributable to payments on acquisition of investments. Our payments on acquisition of investments for the years ended December 31, 2010, 2011 and 2012 and for the six months ended June 30, 2013 amounted to RMB330,894 million, RMB398,629 million, RMB644,507 million and RMB259,309 million, respectively.

Cash Flows from Financing Activities

Our cash inflows from financing activities are primarily attributable to proceeds from capital injections from Shareholders (including our A Share initial public offering and private placements) and proceeds from the issuance of new debt securities. We received RMB21,323 million as capital injections from our Shareholders in 2010. We received RMB36,700 million as proceeds from our issuances of new debt securities in 2012, consisting of RMB30,000 million as proceeds from financial bonds and RMB6,700 million as proceeds from subordinated debts. See "– Capital Resources – Debt Securities Issued". We did not issue any debt securities in 2010 and 2011.

Our cash outflows from financing activities are primarily attributable to cash dividends paid to Shareholders, interest paid on debt securities issued and repayments of subordinated debts issued. The aggregate amounts of the cash dividends paid by us to our Shareholders in 2010, 2011 and 2012 and for six months ended June 30, 2013 were RMB1,167 million, RMB3,674 million, RMB5,528 million and RMB2,256 million, respectively. The interest paid by us to holders of our subordinated debts in 2010, 2011 and 2012 and for the six months ended June 30, 2013 were RMB870 million, RMB736 million, RMB770 million and RMB2,208 million, respectively. In 2010 and in the six months ended June 30, 2013, we repaid an aggregate principal amount of RMB5,550 million and RMB8,000 million, respectively, for part of our subordinated debts upon their maturity.

LIQUIDITY

We fund our loan and investment portfolios principally by our deposits from customers. Although a majority of our deposits from customers have been short-term deposits, deposits from customers have been, and we believe they will continue to be, a stable source of our funding. Deposits from customers with remaining maturities of one year or less represented 89.6%, 87.8%, 86.6% and 86.1% of total deposits from customers as of December 31, 2010, 2011 and 2012 and June 30, 2013, respectively. For additional information about our short-term liabilities and sources of funds, see "Assets and Liabilities – Liabilities and Sources of Funds" and "Supervision and Regulation – PRC Banking Supervision and Regulation – Other Operational and Risk Management Ratios."

We manage liquidity primarily by monitoring the maturities of our assets and liabilities in an effort to ensure that we have sufficient funds to meet obligations as they become due. We have been focusing on maintaining stable sources of funding and increasing our deposits from customers. Furthermore, to meet our liquidity management requirements, we hold a significant amount of highly liquid assets, such as PBOC bills and PRC central government bonds, and financial assets with short maturities, such as financial assets held under resale agreements, short-term debt securities and discounted bills.

If further liquidity requirements arise, we have access to the inter-bank money market. See "Risk Management – Liquidity Risk Management."

The following table sets forth, as of June 30, 2013, the remaining maturities of our assets and liabilities.

	As of June 30, 2013							
	Indefinite	Repayable on demand	Within 1 month (inclusive)	Between 1 month and 3 months (inclusive)	Between 3 months and 12 months (inclusive)	Between 1 year and 5 years (inclusive)	More than 5 years	Total
	(in millions of RMB)							
Assets								
Cash and deposits with the central bank	280,850	30,858	–	–	–	–	–	311,708
Deposits with banks and other financial institutions	–	12,425	8,360	33,336	13,129	6,620	–	73,870
Placements with banks and other financial institutions	–	–	27,081	47,603	53,304	9,072	–	137,060
Financial assets held under resale agreements	–	–	101,955	46,768	32,661	–	–	181,384
Loans and advances to customers, net	9,672	92,185	58,713	119,109	400,799	216,232	181,955	1,078,665
Investments, net[1]	99	–	10,163	60,776	109,270	307,543	86,718	574,569
Others[2]	18,546	17	7,911	22,298	23,332	40,596	1,212	113,912
Total assets	**309,167**	**135,485**	**214,183**	**329,890**	**632,495**	**580,063**	**269,885**	**2,471,168**
Liabilities								
Deposits from banks and other financial institutions	–	106,390	318,389	78,739	57,804	2,800	–	564,122
Placements from banks and other financial institutions	–	21	19,922	10,094	10,185	–	–	40,222
Financial assets sold under repurchase agreements	–	4	71,723	317	173	–	–	72,217
Deposits from customers	–	630,378	186,620	168,673	352,367	214,973	1,680	1,554,691
Debt securities issued	–	–	–	–	8,000	30,000	6,700	44,700
Others[3]	8,759	1,083	19,292	25,046	8,849	4,938	183	68,150
Total liabilities	**8,759**	**737,876**	**615,946**	**282,869**	**437,378**	**252,711**	**8,563**	**2,344,102**
Liquidity gap	**300,408**	**(602,391)**	**(401,763)**	**47,021**	**195,117**	**327,352**	**261,322**	**127,066**
Notional amount of derivative financial instruments	**–**	**–**	**48,771**	**33,592**	**98,733**	**56,000**	**2,497**	**239,593**

Notes:

(1) Consist of debt securities (net), equity instruments (net), fixed-rate mortgages and debt securities classified as receivables.

(2) Primarily consist of interest receivables, positive fair value of derivatives, fixed assets, intangible assets, deferred tax assets and goodwill.

(3) Primarily consist of negative fair value of derivatives, accrued staff costs, taxes payable, interests payable and provisions.

CAPITAL RESOURCES

Shareholders' Equity

The following table sets forth, between the dates indicated, the components of the changes in our total equity attributable to Shareholders.

	Shareholders' equity
	(in millions of RMB)
As of December 31, 2010	**81,463**
Share capital	–
Capital reserve	427
Surplus reserve	1,792
General reserve	2,245
Retained earnings	10,206
Non-controlling interests	17
As of December 31, 2011	**96,150**
Share capital	–
Capital reserve	(70)
Surplus reserve	2,334
General reserve	14,186
Retained earnings	1,693
Non-controlling interests	29
As of December 31, 2012	**114,322**
Share capital	–
Capital reserve	120
Surplus reserve	–
General reserve	–
Retained earnings	12,572
Non-controlling interests	52
As of June 30, 2013	**127,066**

Debt Securities Issued

On April 25, 2008, we issued RMB6 billion principal amount of subordinated debts, including (i) RMB3.5 billion principal amount of first fixed-rate subordinated debt which matures on April 28, 2018 and bears interest at 5.85% per year for the first five years and (ii) RMB2.5 billion principal amount of first floating rate subordinated debt which matures on April 28, 2018 and bears interest at a floating rate based on the PBOC's one-year time deposits rate plus an interest margin of 1.66%. On April 28, 2013, we redeemed these subordinated debts in full.

On June 27, 2008, we issued RMB2 billion second fixed rate subordinated debt which matures on June 30, 2018 and bears interest at 5.92% per year for the first five years. On June 30, 2013, we redeemed these subordinated debts in full.

On December 15, 2008, we issued RMB5 billion third fixed rate subordinated debt which matures on December 17, 2018 and bears interest at 4.05% per year for the first five years. We have announced on November 15, 2013 that we would exercise our redemption option on December 17, 2013 to fully redeem the RMB5 billion ten-year fixed rate subordinated debt issued on December 15, 2008.

On March 13, 2009, we issued RMB3 billion first fixed rate subordinated debt which matures on March 17, 2019 and bears interest at 3.75% per year for the first five years; the interest rate for the remaining term increases to 6.75% per year if the debt is not redeemed by us by March 17, 2014.

On March 28, 2012, we issued RMB20 billion fixed rate financial bonds with a term of five years bearing coupon rate of 4.20%.

On March 28, 2012, we issued RMB10 billion floating rate financial bonds with a term of five years bearing interest at a floating rate based on the PBOC's one-year time deposits rate plus a margin of 0.95%.

On June 7, 2012, we issued RMB6.7 billion fixed-rate subordinated debt with a term of fifteen years bearing coupon rate of 5.25%, which we can choose to redeem at the nominal amount on June 8, 2022.

As of December 31, 2010, 2011 and 2012 and June 30, 2013, the fair value of the total debt securities issued by us amounted to RMB15,889 million, RMB15,742 million, RMB51,823 million and RMB46,107 million, respectively.

Capital Adequacy

Our core capital, supplementary capital and risk-weighted assets are calculated in accordance with the requirements under the Capital Adequacy Regulations and the Rules Governing Capital Management of Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)), when applicable, issued by the CBRC.

The following table sets forth, as of the dates indicated, certain information relating to our capital adequacy, calculated in accordance with the Capital Adequacy Regulations effective through the year ended December 31, 2012.

	As of December 31,		
	2010	2011	2012
	(in millions of RMB, except percentages)		
Core capital adequacy ratio	8.15%	7.89%	8.00%
Capital adequacy ratio	11.02%	10.57%	10.99%
Components of capital base			
Core capital:	**77,638**	**90,772**	**111,977**
Share capital	40,435	40,435	40,435
Capital reserve	19,901	20,328	20,258
Surplus reserve and general reserve	14,066	18,103	34,623
Retained earnings	3,138	11,791	16,517
Non-controlling interests	98	115	144
Supplementary capital:	**28,477**	**31,922**	**42,928**
General provision for doubtful debts	12,477	15,922	20,228
Long-term subordinated debts	16,000	16,000	22,700
Total capital base before deductions	**106,115**	**122,694**	**154,905**
Deductions:	**(2,803)**	**(2,803)**	**(2,802)**
Goodwill	(1,281)	(1,281)	(1,281)
Unconsolidated equity investments	(2)	(2)	(1)
Others	(1,520)	(1,520)	(1,520)
Total capital base after deductions[(1)]	**103,312**	**119,891**	**152,103**
Risk-weighted assets[(2)]	**937,387**	**1,133,906**	**1,383,605**

Notes:

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

(2) The balances of risk-weighted assets include an amount equal to 12.5 times the Group's market risk capital.

As of December 31, 2010, 2011 and 2012, our capital adequacy ratio was 11.02%, 10.57% and 10.99%, respectively, and our core capital adequacy ratio was 8.15%, 7.89% and 8.00%, respectively, in compliance with CBRC requirements. See "Supervision and Regulation – PRC Banking Supervision and Regulation – Supervision Over Capital Adequacy – Supervision on capital adequacy level by the CBRC" and "Supervision and Regulation – PRC Banking Supervision and Regulation – Principal Regulators – CBRC."

On June 7, 2012, the CBRC promulgated the Rules Governing Capital Management of Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)), the requirements of which will result in changes in our capital adequacy ratios. See "Risk Factors – Risks Relating to Our Business – We may face difficulties in meeting regulatory requirements relating to capital adequacy in the future" and "Supervision and Regulation – PRC Banking Supervision and Regulation – Supervision Over Capital Adequacy."

The following table sets forth, as of June 30, 2013, certain information relating to our capital adequacy, calculated in accordance with the above requirements.

	As of June 30, 2013
	(in millions of RMB, except percentages)
Core tier-one capital adequacy ratio	**7.77%**
Tier-one capital adequacy ratio	**7.77%**
Capital adequacy ratio	**10.55%[(1)]/9.67%**
Core tier-one capital, net	**125,229**
Tier-one capital, net	**125,232**
Net capital	**155,754**
Risk-weighted assets for credit risk	1,510,903
Risk-weighted assets for market risk	12,197
Risk-weighted assets for operational risk	88,306
Total risk-weighted assets	**1,611,406**

Note:

(1) Calculated in accordance with the superseded Capital Adequacy Regulations (資本充足率管理辦法), which was no longer a regulatory requirement as of January 1, 2013 and is presented here for illustrative purposes only.

CREDIT COMMITMENTS

Our credit commitments primarily consist of loan commitments, credit card commitments, acceptances, letters of guarantee, letters of credit and financial guarantees. Loan commitments are our commitments to extend credit. Acceptances consist of undertakings to pay bills of exchange issued by us. Letters of guarantee, letters of credit and financial guarantees are provided to guarantee the performance of our customers to third parties. The following table sets forth the contractual amounts of our credit commitments as of the dates indicated.

	As of December 31,			As of June 30,
	2010	2011	2012	2013
	(in millions of RMB)			
Loan commitments				
Original contractual maturity within one year	19,115	13,709	8,249	12,797
Original contractual maturity more than one year (inclusive)	33,913	30,508	38,267	40,014
Credit card commitments	31,381	43,426	61,839	57,728
Subtotal	84,409	87,643	108,355	110,539
Acceptances	262,318	318,730	407,585	449,404
Letters of guarantee	46,898	59,280	45,417	48,629
Letters of credit	56,206	86,910	114,003	123,386
Guarantees	1,161	1,161	761	361
Total	**450,992**	**553,724**	**676,121**	**732,319**

As of December 31, 2010, 2011 and 2012 and June 30, 2013, our credit commitments were RMB450,992 million, RMB553,724 million, RMB676,121 million and RMB732,319 million, respectively. The increases in our credit commitments were primarily due to the increases in our acceptances, credit card commitments and letters of credit.

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following table sets forth the face value of our known contractual obligations by remaining contract maturity classified into the categories specified below as of June 30, 2013.

	As of June 30, 2013			
	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
	(in millions of RMB)			
On-balance sheet				
Subordinated debts issued	–	–	14,700	14,700
Financial bonds	–	30,000	–	30,000
Total	**–**	**30,000**	**14,700**	**44,700**
Off-balance sheet				
Operating lease commitments	1,356	5,031	2,662	9,049
Redemption obligations	3,173	5,499	–	8,672
Capital commitments approved or contracted for	946	277	–	1,223
Total	**5,475**	**10,807**	**2,662**	**18,944**

SELECTED UNAUDITED FINANCIAL INFORMATION AS OF AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013

Under the rules of the Shanghai Stock Exchange on which our A Shares are listed, we are required to publish reports containing unaudited financial statements as of and for the nine months ended September 30 of each year. Because we published certain financial statements as of and for the nine months ended September 30, 2013 in the PRC prior to the date of this prospectus, we have included the condensed consolidated statement of financial position as of September 30, 2013, the condensed consolidated statement of the comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows, each for the nine months ended September 30, 2013, together with selected explanatory notes of our Group prepared in accordance with IFRS in Appendix II to this prospectus. KPMG, our independent reporting accountants and auditors, have conducted a review on such financial information in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

Condensed Results of Operations for the Nine Months Ended September 30, 2012 and 2013

The condensed, consolidated results of operations for the nine months ended September 30, 2013 and 2012 set forth below are derived from Appendix II to this prospectus. You should read the following information in conjunction with Appendix II to this prospectus. Our results of operations for the nine months ended September 30, 2013 may not be indicative of our results of operations for the full year ending December 31, 2013.

Net Interest Income

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

	For the nine months ended September 30,	
	2012	2013
	(unaudited) (in millions of RMB)	
Interest income	76,629	89,015
Interest expense	(38,698)	(50,477)
Net interest income	**37,931**	**38,538**

Our net interest income increased by 1.6% to RMB38,538 million for the nine months ended September 30, 2013 compared to RMB37,931 million for the nine months ended September 30, 2012, as a result of a 16.2% increase in our interest income to RMB89,015 million for the nine months ended September 30, 2013 compared to RMB76,629 million for the nine months ended September 30, 2012, partially offset by a 30.4% increase in our interest expense to RMB50,477 million for the nine months ended September 30, 2013 compared to RMB38,698 million for the nine months ended September 30, 2012.

The following table sets forth, for the periods indicated, the average balances of our assets and liabilities and the related interest income or expense and average yields (for assets) or average costs (for liabilities). The average balances of interest-earning assets and interest-bearing liabilities are the average of the daily balances. The average balances of non-interest earning assets, non-interest bearing liabilities and the allowance for impairment losses are the average of the balances at September 30 for the periods indicated.

	For the nine months ended September 30,					
	2012			2013		
	Average balance(7)	Interest income	Average yield(8)	Average balance(7)	Interest income	Average yield(8)
	(unaudited) (in millions of RMB, except percentages)					
Assets						
Loans and advances to customers	966,862	48,724	6.72%	1,115,349	52,037	6.22%
Debt securities investments(1)	248,629	8,371	4.49	557,530	20,834	4.98
Deposits with the central bank(2)	257,526	2,850	1.48	301,870	3,367	1.49
Deposits with banks and other financial institutions	54,343	1,682	4.13	45,399	975	2.86
Financial assets held under resale agreements and placements with banks and other financial institutions	380,791	15,002	5.25	337,939	11,802	4.66
Total interest-earning assets	**1,908,151**	**76,629**	**5.35%**	**2,358,087**	**89,015**	**5.03%**
Allowance for impairment losses	(29,570)	–		(30,978)	–	
Non-interest earning assets(3)	170,045	–		135,931	–	
Total assets	**2,048,626**	**76,629**		**2,463,040**	**89,015**	

	For the nine months ended September 30,					
	2012			2013		
	Average balance(7)	Interest expense	Average cost(8)	Average balance(7)	Interest expense	Average cost(8)
	(unaudited) (in millions of RMB, except percentages)					
Liabilities						
Deposits from customers(4)	1,260,350	23,477	2.48%	1,481,861	27,548	2.48%
Deposits from banks and other financial institutions	372,433	11,648	4.17	569,942	19,415	4.54
Financial assets sold under repurchase agreements and placements from banks and other financial institutions	101,629	2,588	3.40	107,090	2,547	3.17
Debt securities issued	39,177	1,342	4.57	48,663	1,637	4.49
Total interest-bearing liabilities	**1,773,589**	**39,055**	**2.94%**	**2,207,556**	**51,147**	**3.09%**
Fair value change of structured deposits	–	(357)		–	(670)	
Non-interest-bearing liabilities	64,006	–		58,271	–	
Total liabilities	**1,837,595**	**38,698**		**2,265,827**	**50,477**	
Net interest income		**37,931**			**38,538**	
Net interest spread(5)		**2.41%**			**1.94%**	
Net interest margin(6) ...		**2.63%**			**2.14%**	

Notes:

(1) Consist of available-for-sale debt securities, held-to-maturity debt securities, debt securities held for trading and debt securities classified as receivables.

(2) Primarily consist of required deposit reserves and surplus deposit reserves.

(3) Consist of cash, positive fair value of derivatives, assets held for wealth management products, interest receivable and other assets.

(4) Consist of corporate deposits, retail deposits and structured deposits.

(5) Calculated as the difference between the average yield on total interest-earning assets (calculated on an annualized basis) and the average cost of total interest-bearing liabilities (calculated on an annualized basis).

(6) Calculated by dividing net interest income (including the impact of fair value change of structured deposits) by the average balance of total interest-earning assets on an annualized basis.

(7) Represents the average of the daily balances during the period.

(8) Calculated on an annualized basis.

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

	For the nine months ended September 30,		
	2013 vs. 2012		
	Increase/(decrease) due to		Net increase/ (decrease)[3]
	Volume[1]	Rate[2]	
	(unaudited) (in millions of RMB)		
Assets			
Loans to customers	6,928	(3,615)	3,313
Debt securities investments	11,543	920	12,463
Deposits with the central bank	495	22	517
Deposits with banks and other financial institutions	(192)	(515)	(707)
Financial assets held under resale agreements and placements with banks and other financial institutions	(1,497)	(1,703)	(3,200)
Changes in interest income	**17,277**	**(4,891)**	**12,386**
Liabilities			
Deposits from customers	4,435	(364)	4,071
Deposits from banks and other financial institutions	6,728	1,039	7,767
Financial assets sold under repurchase agreements and placements from banks and other financial institutions	130	(171)	(41)
Debt securities issued	319	(24)	295
Sub-total	11,612	480	12,092
Fair value change of structured deposits			(313)
Changes in interest expense			**11,779**

Notes:

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

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

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

Interest Income

Our interest income increased by 16.2% to RMB89,015 million for the nine months ended September 30, 2013 compared to RMB76,629 million for the nine months ended September 30, 2012, primarily due to an increase of 23.6% in the average balance of our interest-earning assets to RMB2,358,087 million for the nine months ended September 30, 2013 compared to RMB1,908,151 million for the nine months ended September 30, 2012, partially offset by a decrease in the average yield on our interest-earning assets to 5.03% for the nine months ended September 30, 2013 compared to 5.35% for the nine months ended September 30, 2012. The increase in the average balance of our interest-earning assets was primarily due to an increase in the average balance of (i) our debt securities investments, (ii) our loans and advances to customers, and (iii) our deposits with the central bank. The increase in the average balance of our interest-earning assets was partially offset by a decrease in the average balance of (i) financial assets held under resale agreements and placements with banks and other financial institutions and (ii) our deposits with banks and other financial institutions.

The decrease in the average yield on our interest-earning assets was primarily due to decreases in the average yield of (i) our loans and advances to customers, (ii) our deposits with banks and other financial institutions, and (iii) our financial assets held under resale agreements and placements with banks and other financial institutions, partially offset by an increase in the average yield of our debt securities investments.

Interest Income from Loans to Customers

Interest income from loans and advances to customers is the largest component of our interest income, representing 63.6% and 58.5% of our interest income for the nine months ended September 30, 2012 and 2013, respectively.

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

	For the nine months ended September 30,					
	2012			2013		
	Average balance[1]	Interest income	Average yield[2]	Average balance[1]	Interest income	Average yield[2]
	(unaudited) (in millions of RMB, except percentages)					
Corporate loans	680,972	34,836	6.82%	741,933	35,011	6.29%
Retail loans	259,030	12,187	6.27	351,537	16,010	6.07
Discounted bills	26,860	1,701	8.44	21,879	1,016	6.19
Total loans to customers	**966,862**	**48,724**	**6.72%**	**1,115,349**	**52,037**	**6.22%**

Notes:

(1) Represents the average of the daily balances during the period.

(2) Calculated on an annualized basis.

Interest income from loans and advances to customers increased by 6.8% to RMB52,037 million for the nine months ended September 30, 2013 compared to RMB48,724 million for the nine months ended September 30, 2012, primarily as a result of an increase in the average balance to RMB1,115,349 million for the nine months ended September 30, 2013 compared to RMB966,862 million for the nine months ended September 30, 2012, partially offset by the decrease in the average yield of our total loans and advances to customers to 6.22% for the nine months ended September 30, 2013 compared to 6.72% for the nine months ended September 30, 2012. The increase in the average balance of our loans and advances to customers was primarily due to our continued business expansion. The decrease in the average yield on our loans and advances to customers was primarily due to the decrease in the average yields of our corporate loans, retail loans and discounted bills.

The largest component of our interest income from loans and advances to customers is the interest income from our corporate loans, representing 71.5% and 67.3% of our total interest income from loans and advances to customers for the nine months ended September 30, 2012 and 2013, respectively.

Interest income from corporate loans remained relatively stable at RMB35,011 million for the nine months ended September 30, 2013 compared to RMB34,836 million for the nine months ended September 30, 2012. The average balance increased by 9.0% to RMB741,933 million for the nine months ended September 30, 2013 from RMB680,972 million for the nine months ended September 30, 2012, reflecting the overall expansion of our corporate banking business. Such increase in the average balance was offset by a decrease in the average yield to 6.29% for the nine months ended September 30, 2013 compared to 6.82% for the nine months ended September 30, 2012, primarily due to the impact of two consecutive decreases in the PBOC benchmark interest rate since the second half of 2012.

Interest income from our retail loans increased by 31.4% to RMB16,010 million for the nine months ended September 30, 2013 compared to RMB12,187 million for the nine months ended September 30, 2012, primarily due to an increase of 35.7% in the average balance to RMB351,537 million for the nine months ended September 30, 2013 compared to RMB259,030 million for the nine months ended September 30, 2012. The increase in the average balance reflected the overall expansion of our retail banking business. The decrease in the average yield on retail loans was primarily due to the impact of two consecutive decreases in the PBOC benchmark interest rate since the second half of 2012.

Interest income from discounted bills decreased by 40.3% to RMB1,016 million for the nine months ended September 30, 2013 compared to RMB1,701 million for the nine months ended September 30, 2012, primarily due to a decrease in the average balance and the average yield. The average balance of discounted bills decreased by 18.5% to RMB21,879 million for the nine months ended September 30, 2013 from RMB26,860 million for the nine months ended September 30, 2012, primarily due to adjustments to our loan portfolio. The average yield on discounted bills decreased to 6.19% for the nine months ended September 30, 2013 compared to 8.44% for the nine months ended September 30, 2012, primarily due to an increase in the proportion of short term discounted bills, which have greater liquidity and carry lower yields.

Interest Income from Debt Securities Investments

Interest income from debt securities investments represented 10.9% and 23.4% of our total interest income for the nine months ended September 30, 2012 and 2013, respectively.

Interest income from debt securities investments increased significantly by 148.9% to RMB20,834 million for the nine months ended September 30, 2013 compared to RMB8,371 million for the nine months ended September 30, 2012, primarily due to a significant increase in the average balance by 124.2% to RMB557,530 million for the nine months ended September 30, 2013 compared to RMB248,629 million for the nine months ended September 30, 2012. The increase in the average balance was primarily due to the adjustment of our investment portfolio to allocate our fund resources to products with higher yields, including debt securities classified as receivables.

Interest Income from Deposits with the Central Bank

Interest income from deposits with the central bank increased by 18.1% to RMB3,367 million for the nine months ended September 30, 2013 compared to RMB2,850 million for the nine months ended September 30, 2012, primarily due to an increase in the average balance by 17.2% to RMB301,870 million for the nine months ended September 30, 2013 compared to RMB257,526 million for the nine months ended September 30, 2012. The increase in the average balance was primarily due to an increase in our required deposit reserves, reflecting an increase in our deposits from customers, partially offset by a decrease in the required deposit reserve ratio.

Interest Income from Deposits with Banks and other Financial Institutions

Interest income from deposits with banks and other financial institutions decreased by 42.0% to RMB975 million for the nine months ended September 30, 2013 compared to RMB1,682 million for the nine months ended September 30, 2012, primarily due to (i) a decrease in the average yield to 2.86% for nine months ended September 30, 2013 compared to 4.13% for the nine months ended September 30, 2012 and (ii) a decrease in the average balance to RMB45,399 million for nine months ended September 30, 2013 compared to RMB54,343 million for the nine months ended September 30, 2012. The decrease in the average yield of deposits with banks and other financial institutions was primarily due to an increase in the proportion of short term deposits with banks and other financial institutions, which have greater liquidity and carry lower yields. The decrease in the average balance was primarily due to the reallocation of our fund resources to products with higher yields while meeting our liquidity needs.

Interest Income from Financial Assets Held under Resale Agreements and Placements with Banks and other Financial Institutions

For the nine months ended September 30, 2012 and 2013, interest income from financial assets held under resale agreements and placements with banks and other financial institutions represented 19.6% and 13.3% of our total interest income, respectively.

Interest income from financial assets held under resale agreements and placements with banks and other financial institutions decreased by 21.3% to RMB11,802 million for the nine months ended September 30, 2013 compared to RMB15,002 million for the nine months ended September 30, 2012, primarily due to (i) a decrease in the average yield to 4.66% for the nine months ended September 30, 2013 compared to 5.25% for the nine months ended September 30, 2012 and (ii) a decrease in the average balance to RMB337,939 million for nine months ended September 30, 2013 compared to RMB380,791 million for the nine months ended September 30, 2012. The decrease in the average yield on financial assets held under resale agreements and placements with banks and other financial institutions was primarily due to an increase in the proportion of short term financial assets held under resale agreements and placements with banks and other financial institutions, which have greater liquidity and carry lower yields. The decrease in average balance of financial assets held under resale agreements and placements with banks and other financial institutions was primarily due to the reallocation of our fund resources to products with higher yields while meeting our liquidity needs.

Interest Expense

Interest expense increased by 30.4% to RMB50,477 million for the nine months ended September 30, 2013 compared to RMB38,698 million for the nine months ended September 30, 2012, primarily due to a 24.5% increase in the average balance of interest-bearing liabilities to RMB2,207,556 million for the nine months ended September 30, 2013 compared to RMB1,773,589 million for the nine months ended September 30, 2012 and an increase in the average cost of interest-bearing liabilities to 3.09% for the nine months ended September 30, 2013 compared to 2.94% for the nine months ended September 30, 2012. The increase in the average cost on our interest-bearing liabilities was primarily due to the increases in the average cost of structured deposits and the average cost of deposits from banks and other financial institutions.

Interest Expense on Deposits from Customers

Interest expense on deposits from customers (including structured deposits) represented 60.7% and 54.6% of our total interest expense for the nine months ended September 30, 2012 and 2013, respectively.

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

	For the nine months ended September 30,					
	2012			2013		
	Average balance(1)	Interest expense	Average cost(2)	Average balance(1)	Interest expense	Average cost(2)
	(unaudited) (in millions of RMB, except percentages)					
Corporate deposits						
Time	600,972	16,465	3.65%	705,307	18,140	3.43%
Demand	400,132	2,306	0.77	417,902	2,184	0.70
Subtotal	1,001,104	18,771	2.50	1,123,209	20,324	2.41
Retail deposits						
Time	116,197	2,750	3.16	136,803	3,397	3.31
Demand	67,301	267	0.53	83,514	306	0.49
Subtotal	183,498	3,017	2.19	220,317	3,703	2.24
Structured deposits(3)						
Corporate	19,788	430	2.90	40,846	1,247	4.07
Retail	55,960	1,259	3.00	97,489	2,274	3.11
Subtotal	75,748	1,689	2.97	138,335	3,521	3.39
Total deposits from customers	**1,260,350**	**23,477**	**2.48%**	**1,481,861**	**27,548**	**2.48%**

Notes:

(1) Represents the average of the daily balances during the period.

(2) Calculated on an annualized basis.

(3) Structured deposits are all time deposits.

The largest component of our interest expense on deposits from customers has been interest expense on corporate deposits, representing 80.0% and 73.8% of our total interest expense on deposits from customers for the nine months ended September 30, 2012 and 2013, respectively.

Interest expense on total deposits from customers increased by 17.3% to RMB27,548 million for the nine months ended September 30, 2013 compared to RMB23,477 million for the nine months ended September 30, 2012, primarily due to an increase of 17.6% in the average balance to RMB1,481,861 million for the nine months ended September 30, 2013 compared to RMB1,260,350 million for the nine months ended September 30, 2012. The average cost on total deposits from customers remained stable at 2.48% for the nine months ended September 30, 2012 and 2013. The increase in the average balance was primarily due to our marketing efforts to attract corporate and retail deposits.

Interest expense on corporate deposits increased by 8.3% to RMB20,324 million for the nine months ended September 30, 2013 compared to RMB18,771 million for the nine months ended September 30, 2012, primarily due to an increase in the average balance by 12.2% to RMB1,123,209 million for the nine months ended September 30, 2013 compared to RMB1,001,104 million for the nine months ended September 30, 2012, partially offset by a decrease in the average cost to 2.41% for the nine months ended September 30, 2013 compared to 2.50% for the nine months ended September 30, 2012. The increase in the average balance was primarily due to an increase in corporate deposits as a result of our increased marketing efforts. The decrease in the average cost of our corporate deposits was primarily due to the impact of two consecutive decreases in the PBOC benchmark interest rates since the second half of 2012.

Interest expense on retail deposits increased by 22.7% to RMB3,703 million for the nine months ended September 30, 2013 compared to RMB3,017 million for the nine months ended September 30, 2012, primarily due to (i) an increase in the average balance by 20.1% to RMB220,317 million for the nine months ended September 30, 2013 compared to RMB183,498 million for the nine months ended September 30, 2012, and (ii) an increase in the average cost to 2.24% for the nine months ended September 30, 2013 compared to 2.19% for the nine months ended September 30, 2012. The increase in the average balance was primarily due to our efforts to expand our business in the retail sector. The increase in the average cost was primarily because (i) the PBOC raised the interest rate ceiling of deposits in 2012 and (ii) the average balance of retail time deposits, which have a higher average cost than retail demand deposits, increased by 17.7% to RMB136,803 million for the nine months ended September 30, 2013 from RMB116,197 million for the nine months ended September 30, 2012.

Interest expense on structured deposits significantly increased by 108.5% to RMB3,521 million for the nine months ended September 30, 2013 compared to RMB1,689 million for the nine months ended September 30, 2012, primarily due to (i) an increase in the average balance by 82.6% to RMB138,335 million for the nine months ended September 30, 2013 compared to RMB75,748 million for the nine months ended September 30, 2012, and (ii) an increase in the average cost to 3.39% for the nine months ended September 30, 2013 compared to 2.97% for the nine months ended September 30, 2012. The increase in the average balance of our structured deposits was primarily due to (i) the increased market demand for such products and (ii) our enhanced marketing efforts for structured deposits, with the aim of obtaining more high net-worth customers. The increase in the average cost of our structured deposits was primarily due to the higher market interest rates for such products.

Interest Expense on Deposits from Banks and Other Financial Institutions

Interest expense on deposits from banks and other financial institutions increased by 66.7% to RMB19,415 million for the nine months ended September 30, 2013 compared to RMB11,648 million for the nine months ended September 30, 2012, primarily due to (i) an increase in the average balance by 53.0% to RMB569,942 million for the nine months ended September 30, 2013 compared to RMB372,433 million for the nine months ended September 30, 2012, and (ii) an increase in the average cost to 4.54% for the nine months ended September 30, 2013 compared to 4.17% for the nine months ended September 30, 2012. The increase in the average balance of our deposits from banks and other financial institutions was primarily due to the expansion of our inter-bank business operations. The increase in the average cost of our deposits from banks and other financial institutions was primarily due to the increase in the interest rates of the PRC inter-bank money market since the second quarter of 2013.

Interest Expense on Financial Assets Sold under Repurchase Agreements and Placements from Banks and Other Financial Institutions

Interest expense on financial assets sold under repurchase agreements and placements from banks and other financial institutions slightly decreased by 1.6% to RMB2,547 million for the nine months ended September 30, 2013 compared to RMB2,588 million for the nine months ended September 30, 2012, primarily due to a decrease in the average cost to 3.17% for the nine months ended September 30, 2013 compared to 3.40% for the nine months ended September 30, 2012, which was partially offset by an increase in the average balance by 5.4% to RMB107,090 million for the nine months ended September 30, 2013 from RMB101,629 million for the nine months ended September 30, 2012. The decrease in the average cost of our financial assets sold under repurchase agreements and placements from banks and other financial institutions was primarily due to an increase in the proportion of short term financial assets sold under repurchase agreements and placements from banks and other financial institutions, which have greater liquidity and carry lower costs. The increase in the average balance of our financial assets sold under repurchase agreements and placements from banks and other financial institutions was primarily due to the reallocation of our fund resources while meeting our liquidity needs.

Net Interest Spread and Net Interest Margin

Our net interest spread decreased to 1.94% for the nine months ended September 30, 2013 compared to 2.41% for the nine months ended September 30, 2012, primarily due to (i) a decrease of 32 basis points in the average yield on our interest-earning assets to 5.03% for the nine months ended September 30, 2013 compared to 5.35% for the nine months ended September 30, 2012 and (ii) an increase of 15 basis points in the average cost of our interest-bearing liabilities to 3.09% for the nine months ended September 30, 2013 compared to 2.94% for the nine months ended September 30, 2012.

Our net interest margin decreased by 49 basis points to 2.14% for the nine months ended September 30, 2013 compared to 2.63% for the nine months ended September 30, 2012, because while our net interest income increased by 1.6%, the average balance of our interest-earning assets increased at a greater rate by 23.6% for the nine months ended September 30, 2013 compared to the nine months ended September 30, 2012.

The decrease in our net interest spread was primarily due to the overall decrease in the average yields on our loans and other financial assets, accompanied by the overall increase in the average costs of our interest-bearing liabilities. The decrease in our net interest margin was primarily due to lesser growth in our net interest income as compared to the growth in our average balance of interest-earning assets.

Net Fee and Commission Income

Net fee and commission income represented 15.0% and 22.7% of our total operating income for the nine months ended September 30, 2012 and 2013, respectively. The following table sets forth, for the periods indicated, the principal components of our net fee and commission income.

	For the nine months ended September 30,	
	2012	2013
	(unaudited) (in millions of RMB)	
Fee and commission income		
Bank card service fees	2,116	5,108
Underwriting and advisory fees	1,166	1,516
Settlement and clearing fees	1,103	1,281
Wealth management service fees	999	1,729
Agency service fees	499	448
Acceptance and guarantee fees	464	672
Custody and other fiduciary business fees	430	608
Others[1]	250	276
Subtotal	7,027	11,638
Fee and commission expenses	(350)	(532)
Net fee and commission income	**6,677**	**11,106**

Note:

(1) Primarily consist of management fees from trade finance limits and fees from the leasing business.

Our net fee and commission income increased by 66.3% to RMB11,106 million for the nine months ended September 30, 2013 compared to RMB6,677 million for the nine months ended September 30, 2012, primarily due to the increases in bank card service fees, underwriting and advisory fees, settlement and clearing fees, wealth management service fees, acceptance and guarantee fees and custody and other fiduciary business fees, partially offset by a decrease in agency service fees.

Bank Card Service Fees

Bank card service fees significantly increased by 141.4% to RMB5,108 million for the nine months ended September 30, 2013 compared to RMB2,116 million for the nine months ended September 30, 2012, primarily due to an increase in transaction fees received from our credit card holders as a result of (i) our increased focus on products with higher yields and (ii) the increases in the number of credit cards issued by us and the transaction volume of our credit card holders.

Settlement and Clearing Fees

Settlement and clearing fees increased by 16.1% to RMB1,281 million for the nine months ended September 30, 2013 compared to RMB1,103 million for the nine months ended September 30, 2012, primarily due to increases in the number of customers and the transaction volume as a result of our continued marketing and product development efforts in respect of our settlement and cash management business.

Underwriting and Advisory Fees

Underwriting and advisory fees increased by 30.0% to RMB1,516 million for the nine months ended September 30, 2013 compared to RMB1,166 million for the nine months ended September 30, 2012, primarily due to the growth in fees from our short-term commercial paper business and the continued strengthening of our cooperation with companies in other industries, including finance leasing, trusts, automobile financing and other banking institutions.

Wealth Management Service Fees

Wealth management service fees increased significantly by 73.1% to RMB1,729 million for the nine months ended September 30, 2013 compared to RMB999 million for the nine months ended September 30, 2012, primarily due to the growth of our wealth management business.

Agency Service Fees

Agency service fees decreased by 10.2% to RMB448 million for the nine months ended September 30, 2013 compared to RMB499 million for the nine months ended September 30, 2012, primarily due to agency service fees recognized for the nine months ended September 30, 2012 for a service provided to a government institution.

Acceptance and Guarantee Fees

Acceptance and guarantee fees increased by 44.8% to RMB672 million for the nine months ended September 30, 2013 compared to RMB464 million for the nine months ended September 30, 2012, primarily due to the growth of our bank acceptance bills business.

Custody and Other Fiduciary Business Fees

Custody and other fiduciary business fees increased by 41.4% to RMB608 million for the nine months ended September 30, 2013 compared to RMB430 million for the nine months ended September 30, 2012, primarily due to the continued expansion of our custodian business.

Other Fees

Other fees increased by 10.4% to RMB276 million for the nine months ended September 30, 2013 compared to RMB250 million for the nine months ended September 30, 2012, primarily due to the increase in fees from our leasing business.

Fee and Commission Expenses

Fee and commission expenses increased by 52.0% to RMB532 million for the nine months ended September 30, 2013 compared to RMB350 million for the nine months ended September 30, 2012, primarily due to the increase in bank card transaction fees resulting from inter-bank transactions.

Other Net Loss

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

	For the nine months ended September 30,	
	2012	2013
	(unaudited) (in millions of RMB)	
Net gain arising from investment securities	40	94
Net trading loss	(371)	(1,358)
Net foreign exchange gain	33	292
Other operating income	148	204
Total other net loss	**(150)**	**(768)**

Other net loss significantly increased to RMB768 million for the nine months ended September 30, 2013 from RMB150 million for the nine months ended September 30, 2012, primarily due to (i) a significant increase in net trading loss to RMB1,358 million for the nine months ended September 30, 2013 from RMB371 million for the nine months ended September 30, 2012, partially offset by a significant increase in foreign exchange gain to RMB292 million for the nine months ended September 30, 2013 from RMB33 million for the nine months ended September 30, 2012.

Net Gain Arising from Investment Securities

Our net gain on investment securities significantly increased to RMB94 million for the nine months ended September 30, 2013, compared to RMB40 million for the nine months ended September 30, 2012. The increase in net gain from investment securities for the nine months ended September 30, 2013 was primarily due to the gains from the disposal of available-for-sale bonds.

Net Trading Loss

Our net trading loss significantly increased to RMB1,358 million for the nine months ended September 30, 2013 from RMB371 million for the nine months ended September 30, 2012. The increase in net trading loss for the nine months ended September 30, 2013 was primarily due to the depreciation of the U.S. dollar against the Renminbi since the second quarter of 2013 and the decrease in the fair value of the corresponding derivative financial instruments for foreign exchange rate, resulting in revaluation losses.

Net Foreign Exchange Gain

Our net foreign exchange gain significantly increased to RMB292 million for the nine months ended September 30, 2013 from RMB33 million for the nine months ended September 30, 2012. The significant increase in the net foreign exchange gain was primarily due to the appreciation of the Renminbi against the U.S. dollar and the increase in trading volume during the same period. There has generally been an inverse correlation between our net trading gain/loss and net foreign exchange loss/gain.

Other Operating Income

We recorded other operating income of RMB148 million and RMB204 million for the nine months ended September 30, 2012 and 2013, respectively.

Operating Expenses

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

	For the nine months ended September 30,	
	2012	2013
	(unaudited)	
	(in millions of RMB, except percentages)	
Staff costs	7,466	7,939
Other general and administrative expenses	2,984	3,461
Business tax and surcharges	3,278	4,167
Depreciation and amortization expenses	1,019	1,202
Rental and property management expenses	1,022	1,257
Total operating expenses	**15,769**	**18,026**
Cost-to-income ratio[(1)]	**28.10%**	**28.36%**

Note:

(1) Calculated by dividing total operating expenses (excluding business tax and surcharges) by total operating income, prepared under IFRS.

Our operating expenses increased by 14.3% to RMB18,026 million for the nine months ended September 30, 2013 compared to RMB15,769 million for the nine months ended September 30, 2012, primarily due to increases in staff costs, other general and administrative expenses and business tax and surcharges. Our cost-to-income ratio slightly increased to 28.36% for the nine months ended September 30, 2013 compared to 28.10% for the nine months ended September 30, 2012.

Staff Costs

Staff costs are the largest component of our operating expenses, representing 47.3% and 44.0% of our total operating expenses for the nine months ended September 30, 2012 and 2013, respectively.

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

	For the nine months ended September 30,	
	2012	2013
	(unaudited)	
	(in millions of RMB)	
Salaries, bonuses and staff allowances	6,103	6,304
Others[(1)]	1,363	1,635
Total staff costs	**7,466**	**7,939**

Note:

(1) Primarily consist of pension and enterprise annuity, housing allowances and supplementary retirement benefits.

Staff costs increased by 6.3% to RMB7,939 million for the nine months ended September 30, 2013 compared to RMB7,466 million for the nine months ended September 30, 2012, primarily due to the increase in the number of our employees in connection with the expansion of our branch network.

Other General and Administrative Expenses

Other general and administrative expenses increased by 16.0% to RMB3,461 million for the nine months ended September 30, 2013 compared to RMB2,984 million for the nine months ended September 30, 2012, primarily due to the increase in the number of our employees and the expansion of our branch network.

Business Tax and Surcharges

Business tax is levied at 5% primarily on our interest income from loans and advances to customers and our gross fee and commission income. In addition, aggregate surcharges of up to 15.6% of the amount of our business tax paid are levied, depending on the locality. Business tax and surcharges increased by 27.1% to RMB4,167 million for the nine months ended September 30, 2013 compared to RMB3,278 million for the nine months ended September 30, 2012, primarily due to an increase in our interest income and gross fee and commission income subject to these tax and surcharges.

Depreciation and Amortization Expenses

Depreciation and amortization expenses increased by 18.0% to RMB1,202 million for the nine months ended September 30, 2013 compared to RMB1,019 million for the nine months ended September 30, 2012, primarily due to the expansion of our branch network.

Rental and property management expenses

Rental and property management expenses increased by 23.0% to RMB1,257 million for the nine months ended September 30, 2013 compared to RMB1,022 million for the nine months ended September 30, 2012, primarily due to the expansion of our branch network and the increase in market rates for our leases.

Impairment Losses on Assets

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

	For the nine months ended September 30,	
	2012	**2013**
	(unaudited)	
	(in millions of RMB)	
Impairment losses on:		
Loans and advances to customers	3,282	3,202
Held-to-maturity investments	44	(30)
Other assets[1]	40	115
	3,366	**3,287**

Note:

(1) Primarily consist of impairment losses on other receivables, financial leasing receivables, interest receivables, deposits and placements with banks and other financial institutions and available-for-sale financial assets and off-balance sheet credit assets.

Impairment losses on our assets slightly decreased by 2.3% to RMB3,287 million for the nine months ended September 30, 2013 compared to RMB3,366 million for the nine months ended September 30, 2012, primarily due to decreases in our impairment losses on our loans and held-to-maturity investments. The decrease in our impairment losses on held-to-maturity investments was primarily due to the decrease in the provision ratio for our held-to-maturity investments. The increase in our impairment losses on other assets was primarily due to increases in the impairment losses on off-balance sheet credit assets.

For details on our allowance for impairment losses on loans and relevant changes, see "Assets and Liabilities – Assets – Allowance for Impairment Losses on Loans and Advances to Customers."

Income Tax

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

	For the nine months ended September 30,	
	2012	2013
	(unaudited)	
	(in millions of RMB, except percentages)	
Profit before tax	**25,323**	**27,563**
Income tax at statutory rate(1)	6,331	6,891
Non-deductible expenses(2)	353	(170)
Non-taxable income(3)	(447)	(572)
Adjustment for prior years	30	(286)
Income tax	**6,267**	**5,863**
Effective tax rate	**24.75%**	**21.27%**

Notes:

(1) 25% during each of the periods ended September 30, 2012 and 2013.

(2) Primarily consist of non-deductible staff costs and other operating expenses.

(3) Primarily consists of interest income from PRC central government bonds.

Our income tax expense decreased by 6.4% to RMB5,863 million for the nine months ended September 30, 2013 compared to RMB6,267 million for the nine months ended September 30, 2012. Our effective tax rate was 21.27% for the nine months ended September 30, 2013 as compared to 24.75% for the same period in 2012.

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

	For the nine months ended September 30,	
	2012	2013
	(unaudited)	
	(in millions of RMB)	
Current income tax	6,285	6,156
Deferred income tax	(48)	(7)
Adjustment for prior years	30	(286)
Income tax	**6,267**	**5,863**

Net Profit

Primarily as a result of all the foregoing factors, our net profit increased by 13.9% to RMB21,700 million for the nine months ended September 30, 2013 compared to RMB19,056 million for the nine months ended September 30, 2012.

SUMMARY SEGMENT OPERATING RESULTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2013

For a discussion of our business segments and geographic regions, see "– Summary Segment Operating Results."

Summary Business Segment Information

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

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

	For the nine months ended September 30,									
	2012					2013				
	Corporate banking	Retail banking	Treasury operations	Others	Total	Corporate banking	Retail banking	Treasury operations	Others	Total
	(unaudited) (in millions of RMB)									
External net interest income(1)	19,919	9,038	8,974	–	37,931	17,057	12,343	9,138	–	38,538
Internal net interest income/(expense)(2)	7,582	(1,379)	(6,203)	–	–	9,282	(3,483)	(5,799)	–	–
Net interest income	**27,501**	**7,659**	**2,771**	**–**	**37,931**	**26,339**	**8,860**	**3,339**	**–**	**38,538**
Net fee and commission income	**3,032**	**3,533**	**112**	**–**	**6,677**	**3,844**	**7,166**	**96**	**–**	**11,106**
Other net income/(expense)	265	(21)	(476)	82	(150)	44	(413)	(510)	111	(768)
Total operating income	**30,798**	**11,171**	**2,407**	**82**	**44,458**	**30,227**	**15,613**	**2,925**	**111**	**48,876**
Operating expenses	(9,676)	(5,747)	(326)	(20)	(15,769)	(10,857)	(6,708)	(442)	(19)	(18,026)
Impairment losses on assets	(2,161)	(1,161)	(44)	–	(3,366)	(1,872)	(1,446)	31	–	(3,287)
Profit before tax	**18,961**	**4,263**	**2,037**	**62**	**25,323**	**17,498**	**7,459**	**2,514**	**92**	**27,563**

Notes:

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

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

The increases in profit before tax for our retail banking business and treasury operations were in line with our overall expansion of business.

The profit before tax for our corporate banking business decreased by 7.7% to RMB17,498 million for the nine months ended September 30, 2013 compared to RMB18,961 million for the nine months ended September 30, 2012, primarily due to a decrease in net interest income and an increase in operating expenses, partially offset by an increase in net fee and commission income.

The profit before tax for our retail banking business increased by 75.0% to RMB7,459 million for the nine months ended September 30, 2013 compared to RMB4,263 million for the nine months ended September 30, 2012, primarily due to increases in net interest income and net fee and commission income, partially offset by an increase in operating expenses.

The profit before tax for our treasury operations increased by 23.4% to RMB2,514 million for the nine months ended September 30, 2013 compared to RMB2,037 million for the nine months ended September 30, 2012, primarily due to an increase in net interest income, partially offset by an increase in operating expenses.

Summary Geographical Segment Information

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

	For the nine months ended September 30,			
	2012		2013	
	Amount	% of Total	Amount	% of Total
	(unaudited) (in millions of RMB, except percentages)			
Head Office[1]	5,502	12.4%	9,715	19.9%
Yangtze River Delta	9,159	20.6	8,933	18.3
Bohai Rim	9,237	20.8	9,337	19.1
Central	6,302	14.2	6,418	13.1
Pearl River Delta	5,929	13.3	5,768	11.8
Northeastern	2,865	6.4	2,583	5.3
Western	5,464	12.3	6,102	12.5
Hong Kong	–	–	20	0.0
Total operating income	**44,458**	**100.0%**	**48,876**	**100.0%**

Note:

(1) Includes operating income from our treasury operation and income from our credit card business.

Operating income generated in the regions of Yangtze River Delta, Bohai Rim and Pearl River Delta together represented 54.7% and 49.2% of our total operating income for the nine months ended September 30, 2012 and 2013, respectively. Operating income from our Head Office increased by 76.6% to RMB9,715 million for the nine months ended September 30, 2013 from RMB5,502 million for the nine months ended September 30, 2012, primarily due to the expansion of our credit card business.

CASH FLOWS

The following table sets forth our cash flows for the periods indicated. See "Appendix II – Unaudited Interim Financial Information – Unaudited Condensed Consolidated Cash Flow Statement."

	For the nine months ended September 30,	
	2012	2013
	(unaudited) (in millions of RMB)	
Net cash flows from operating activities	99,894	15,275
Net cash flows used in investing activities	(153,593)	(44,625)
Net cash flows from/(used in) financing activities	30,610	(12,048)
Effect of foreign exchange rate changes on cash and cash equivalents	(16)	(189)
Net decrease in cash and cash equivalents	**(23,105)**	**(41,587)**

Cash Flows from Operating Activities

Cash inflows from operating activities are primarily attributable to (i) the net increase in deposits from customers and (ii) the net increase in placements from banks and other financial institutions. The net increase in deposits from customers for the nine months ended September 30, 2013 was RMB195,166 million compared to a net increase of RMB189,260 million for the same period in 2012. For the nine months ended September 30, 2013, the net increase in placements from banks and other financial institutions was RMB28,949 million, compared to RMB4,963 million for the same period in 2012.

Cash outflows from operating activities are primarily attributable to (i) the net increase in loans and advances to customers, (ii) the net increase in deposits with the central bank, banks and other financial institutions and (iii) the net increase in placements with banks and other financial institutions. The net increase in loans and advances to customers for the nine months ended September 30, 2013 and the same period in 2012 was RMB121,735 million and RMB107,753 million, respectively. The net increase in deposits with the central bank, banks and other financial institutions for the nine months ended September 30, 2013 and the same period in 2012 was RMB50,835 million and RMB25,465 million, respectively. The net increase in placements with banks and other financial institutions for the nine months ended September 30, 2013 and the same period in 2012 was RMB22,537 million and RMB43,256 million, respectively.

For the nine months ended September 30, 2013 and the same period in 2012, we had a net cash inflow from operating activities of RMB15,275 million and RMB99,894 million, respectively, primarily due to changes in (i) deposits from banks and other financial institutions and (ii) financial assets sold under repurchase agreements, partially offset by changes in (i) other operating assets and (ii) financial assets held under resale agreements. We recorded a net decrease in deposits from banks and other financial institutions of RMB15,295 million in the nine months ended September 30, 2013 compared to a net increase of RMB220,379 million in the same period in 2012. We recorded a net decrease in financial assets sold under repurchase agreements of RMB20,439 million in the nine months ended September 30, 2013 compared to a net increase of RMB10,267 million in the same period in 2012. The net increase in other operating assets for the nine months ended September 30, 2013 and the same period in 2012 was RMB9,007 million and RMB102,886 million, respectively. We recorded a net decrease in financial assets held under resale agreements of RMB6,352 million in the nine months ended September 30, 2013 compared to a net increase of RMB79,332 million in the same period in 2012.

Cash Flows from Investing Activities

Cash inflows from our investing activities are primarily attributable to the proceeds from disposals and redemptions of our investments. The proceeds from disposal and redemption of investments for the nine months ended September 30, 2013 and the same period in 2012 amounted to RMB205,678 million and RMB294,443 million, respectively.

Our cash outflows from investing activities are primarily attributable to payments on acquisition of investments. Our payments on acquisition of investments for the nine months ended September 30, 2013 and the same period in 2012 amounted to RMB248,950 million and RMB447,146 million, respectively.

Cash Flows from Financing Activities

Our cash inflows from financing activities are primarily attributable to proceeds from debt securities issued. We received RMB481 million and RMB36,700 million as proceeds from debt securities issued for the nine months ended September 30, 2013 and the same period in 2012, respectively.

Our cash outflows from financing activities are primarily attributable to (i) principal paid on redemption of debt securities, (ii) dividends paid and (iii) interest paid on debt securities issued. The principal paid on redemption of debt securities for the nine months ended September 30, 2013 and the same period in 2012 was RMB8,000 million and nil, respectively. The dividends paid for the nine months ended September 30, 2013 and the same period in 2012 was RMB2,348 million and RMB5,528 million, respectively. The interest paid on debt securities issued for the nine months ended September 30, 2013 and the same period in 2012 was RMB2,211 million and RMB562 million, respectively.

CAPITAL RESOURCES

Shareholders' Equity

Our total shareholders' equity increased to RMB132,346 million as of September 30, 2013 from RMB114,322 million as of December 31, 2012 due to an increase in retained earnings of RMB19,319 million and an increase in non-controlling interests of RMB66 million, partially offset by a decrease in capital reserve of RMB1,361 million.

Debt Securities Issued

As of September 30, 2013, we had subordinated debts and financial bonds issued in aggregate principal amounts of RMB14.7 billion and RMB30.0 billion, respectively. Further details are set forth in the section headed "– Indebtedness."

As of September 30, 2013, the fair value of the total debt securities issued by us amounted to RMB43.6 billion. We have announced on November 15, 2013 that we would exercise our redemption option on December 17, 2013 to fully redeem the RMB5 billion ten-year fixed rate subordinated debt issued on December 15, 2008.

Capital Adequacy

The following table sets forth, as of September 30, 2013, certain information relating to our capital adequacy, calculated in accordance with the Rules Governing Capital Management of Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)).

	As of September 30, 2013
	(in millions of RMB, except percentages)
Core tier-one capital adequacy ratio	**7.89%**
Tier-one capital adequacy ratio	**7.89%**
Capital adequacy ratio	**9.65%**
Core tier-one capital, net	**130,507**
Tier-one capital, net	**130,511**
Net capital	**159,723**
Risk-weighted assets for credit risk	1,552,258
Risk-weighted assets for market risk	13,890
Risk-weighted assets for operational risk	88,306
Total risk-weighted assets	**1,654,454**

CREDIT COMMITMENTS

The following table sets forth the contractual amounts of our credit commitments as of the date indicated.

	As of September 30, 2013
	(unaudited) (in millions of RMB)
Loan commitments	
Original contractual maturity within one year	10,227
Original contractual maturity more than one year (inclusive)	42,755
Credit card commitments	58,774
Subtotal	111,756
Acceptances	455,403
Letters of guarantee	49,621
Letters of credit	126,735
Guarantees	361
Total	**743,876**

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following table sets forth the face value of our known contractual obligations by remaining contract maturity classified into the categories specified below as of September 30, 2013.

	As of September 30, 2013			
	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
	(unaudited) (in millions of RMB)			
On-balance sheet				
Subordinated debts issued	–	–	14,700	14,700
Financial bonds	–	30,000	–	30,000
Certificates of deposit issued	481	–	–	481
Total	**481**	**30,000**	**14,700**	**45,181**
Off-balance sheet				
Operating lease commitments	1,343	5,320	2,829	9,492
Redemption obligations	387	7,811	–	8,198
Capital commitments approved or contracted for	783	903	–	1,686
Total	**2,513**	**14,034**	**2,829**	**19,376**

QUANTITATIVE AND QUALITATIVE ANALYSIS OF MARKET RISK

Market risk is the risk of loss, with respect to our activities, arising from adverse movements in market rates. These include, but are not limited to, interest rates, foreign exchange rates, commodity prices and stock prices. We are primarily exposed to market risk in our treasury operations business. We divide the transactions into the banking books and the trading books and identify, measure, monitor and perform controls over the relevant market risks based on the nature and characteristics of these books. Trading books refer to investments that we intend to sell in the near term to generate gains from actual or expected short-term price fluctuations or to control risk exposure. Banking books represent business other than trading books. Sensitivity analysis, scenario analysis and foreign exchange exposure analysis are the major tools employed by us to measure and monitor the market risk in our trading books. Sensitivity gap analysis, stress testing and effective duration analysis are the major tools used by us to monitor the market risk of our non-trading businesses.

Interest Rate Risk

Our interest rate exposures mainly relate to repricing risk in our commercial banking business and the risk of our treasury positions. Repricing risk, which is also known as "maturity mismatch risk," is the most common form of interest rate risk, which is caused by the differences in timing between the maturities (related to fixed interest rate instruments) or repricing (related to floating interest rate instruments) of assets, liabilities and off-balance sheet items. The mismatch of repricing timing causes our income or intrinsic economic value to vary with the movement in interest rates.

Trading interest rate risk mainly arises from the treasury's trading account portfolios. Interest rate risk is monitored by using the effective duration analysis. We employ other supplementary methods to measure the interest rate sensitivity, which is expressed as changes in the investment portfolios' fair value given a 100 basis points (1%) movement in the interest rates.

Repricing Gap Analysis

The following table sets forth, as of June 30, 2013, the results of our gap analysis based on the earlier of (i) the next expected re-pricing dates, and (ii) the final maturity dates for our assets and liabilities.

	As of June 30, 2013					
	Less than 3 months	**Between 3 months and 1 year**	**Between 1 and 5 years**	**More than 5 years**	**Non-interest-bearing**	**Total**
	(in millions of RMB)					
Assets						
Cash and deposits with the central bank	294,908	–	–	–	16,800	311,708
Deposits with banks and other financial institutions	62,783	11,020	–	–	67	73,870
Placements with banks and other financial institutions	74,176	53,792	9,092	–	–	137,060
Financial assets held under resale agreements	148,723	32,661	–	–	–	181,384
Loans and advances to customers, net	364,515	688,705	21,998	3,447	–	1,078,665
Investments, net(1)	86,236	113,247	290,353	84,526	207	574,569
Others(2)	35,971	15,082	28,360	–	34,499	113,912
Total assets	**1,067,312**	**914,507**	**349,803**	**87,973**	**51,573**	**2,471,168**
Liabilities						
Deposits from banks and other financial institutions	559,100	5,022	–	–	–	564,122
Placements from banks and other financial institutions	30,016	10,185	–	–	21	40,222
Financial assets sold under repurchase agreements	72,040	173	–	–	4	72,217
Deposits from customers	982,285	376,321	189,520	1,680	4,885	1,554,691
Debt securities issued	–	18,000	20,000	6,700	–	44,700
Others(3)	28,791	1,325	941	–	37,093	68,150
Total liabilities	**1,672,232**	**411,026**	**210,461**	**8,380**	**42,003**	**2,344,102**
Re-pricing gap	**(604,920)**	**503,481**	**139,342**	**79,593**	**9,570**	**127,066**

Notes:

(1) Consist of debt securities (net), equity instruments (net), fixed-rate mortgages and debt securities classified as receivables.

(2) Primarily consist of interest receivables, positive fair value of derivatives, fixed assets, intangible assets, deferred tax assets and goodwill.

(3) Primarily consist of negative fair value of derivatives, accrued staff costs, taxes payable, interests payable and provisions.

Sensitivity Analysis

We use sensitivity analysis to measure the potential effect of changes in interest rates on our net profit and shareholder's equity. The following table sets forth, as of the dates indicated, the results of our interest rate sensitivity analysis based on our assets and liabilities as of the same date.

	As of December 31,						As of June 30,	
	2010		2011		2012		2013	
	Change in net profit	Change in shareholder's equity	Change in net profit	Change in shareholder's equity	Change in net profit	Change in shareholder's equity	Change in net profit	Change in shareholder's equity
	(in millions of RMB)							
100 basis-point increase[(1)]	(1,166)	(2,240)	(1,224)	(2,286)	(3,333)	(5,978)	(4,584)	(7,402)
100 basis-point decrease[(1)] ...	1,150	2,264	1,227	2,344	3,351	6,190	4,610	7,618

Note:

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

Based on our assets and liabilities as of June 30, 2013, if interest rates had increased by 100 basis points, our net profit for the 12 months following June 30, 2013 would have decreased by approximately RMB4,584 million, and the shareholder's equity would have decreased by approximately RMB7,402 million. If interest rates had decreased by 100 basis points, our net profit for the 12 months following June 30, 2013 would have increased by approximately RMB4,610 million, and the shareholder's equity would have increased by approximately RMB7,618 million.

The sensitivity analysis above is based on a static interest rate risk profile of our assets and liabilities. This analysis measures only the impact of changes in interest rates within one year, showing how annualized net profit or loss and shareholders' equity would have been affected by repricing of the assets and liabilities within the one-year period. The sensitivity analysis is based on the following assumptions: (i) interest rate movements as of December 31, 2010, 2011 and 2012 and June 30, 2013 apply to all derivative and non-derivative financial instruments; (ii) as of December 31, 2010, 2011 and 2012 and June 30, 2013, an interest rate movement of 100 basis points is based on the assumption of interest rate movements over the next 12 months; (iii) there is a parallel shift in the yield curve with the changes in interest rates; (iv) there are no other changes to the assets and liabilities portfolio; (v) other variables (including exchange rates) remain unchanged; and (vi) the analysis does not take into account the effect of risk management measures taken by us.

Due to the adoption of the aforementioned assumptions, the actual changes in our net profit or loss and shareholders' equity caused by an increase or decrease in interest rates might vary from the estimated results of this sensitivity analysis.

Exchange Rate Risk

Our foreign currency exposure mainly arises from the foreign currency portfolio within the treasury's proprietary investments and other foreign currency exposures. We manage foreign currency risk by foreign exchange spot, forward and swap transactions and matching our foreign currency-denominated assets with corresponding liabilities in the same currencies.

The following table sets forth, as of June 30, 2013, our assets and liabilities by currency.

	As of June 30, 2013			
	RMB	USD	Others	Total
	(in millions of RMB equivalent)			
Assets				
Cash and deposits with the central bank	308,058	3,236	414	311,708
Deposits with banks and other financial institutions	68,909	2,634	2,327	73,870
Placements with banks and other financial institutions	124,684	11,478	898	137,060
Financial assets held under resale agreements	181,355	–	29	181,384
Loans and advances to customers, net	1,034,927	42,545	1,193	1,078,665
Investments, net	572,811	1,638	120	574,569
Others	107,113	–	6,799	113,912
Total assets	**2,397,857**	**61,531**	**11,780**	**2,471,168**
Liabilities				
Deposits from banks and other financial institutions	(563,441)	(659)	(22)	(564,122)
Placements from banks and other financial institutions	(13,179)	(24,660)	(2,383)	(40,222)
Financial assets sold under repurchase agreements	(72,217)	–	–	(72,217)
Deposits from customers	(1,495,631)	(50,034)	(9,026)	(1,554,691)
Debt securities issued	(44,700)	–	–	(44,700)
Other liabilities	(59,663)	(8,196)	(291)	(68,150)
Total liabilities	**(2,248,831)**	**(83,549)**	**(11,722)**	**(2,344,102)**
Net balance sheet position	**149,026**	**(22,018)**	**58**	**127,066**
Credit commitments	695,773	33,539	3,007	732,319
Derivatives	(20,374)	12,901	6,924	(549)

The appreciation of Renminbi to the U.S. dollar or any other foreign currency will result in a decrease in the value of our assets which are denominated in foreign currencies. See "Risk Factors – Risks Relating to China – We are subject to the PRC government controls on currency conversion and may be affected by the risks relating to fluctuations in exchange rates in the future."

The following table sets forth, as of the dates indicated, the changes in our net profit and shareholder's equity caused by appreciation or depreciation by 1% of Renminbi's exchange rates to U.S. dollars as of the dates indicated.

	As of December 31,						As of June 30,	
	2010		2011		2012		2013	
	Change in net profit	Change in shareholder's equity	Change in net profit	Change in shareholder's equity	Change in net profit	Change in shareholder's equity	Change in net profit	Change in shareholder's equity
	(in millions of RMB)							
100 basis-point appreciation	2	2	2	2	(22)	(22)	(3)	(3)
100 basis-point depreciation	(2)	(2)	(2)	(2)	22	22	3	3

Certain Information of Financial Derivatives

In managing our interest rate risk and exchange rate risk, including such risks arising from our transactions with customers, we use certain financial derivatives. Financial derivatives are recognized and measured at fair value, primarily including interest rate swaps, foreign currency forwards and foreign currency swaps, and we do not treat these derivative instruments as hedging instruments under IAS 39. Interest rate swaps are agreements between us and a counter-party where one stream of future interest payments is exchanged for another based on a specified principal amount. Foreign currency forwards transactions are purchases or sales of foreign currencies at an exchange rate established at the date of transaction but with payment and delivery at a specified future date. Foreign currency swaps are transactions in which we and a counter-party simultaneously enter into a spot currency exchange contract and a forward exchange contract.

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

	As of December 31,									As of June 30,		
	2010			2011			2012			2013		
		Fair value			Fair value			Fair value			Fair value	
	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
	(in millions of RMB)											
Interest rate derivatives												
Interest rate swaps	84,908	2,277	(2,213)	132,463	1,604	(2,080)	128,086	944	(1,065)	84,056	632	(580)
Bond options	66	–	–	–	–	–	–	–	–	–	–	–
Subtotal	**84,974**	**2,277**	**(2,213)**	**132,463**	**1,604**	**(2,080)**	**128,086**	**944**	**(1,065)**	**84,056**	**632**	**(580)**
Currency derivatives												
Foreign currency forwards	21,907	97	(72)	48,876	270	(297)	17,067	122	(173)	24,490	168	(223)
Foreign currency swaps	73,640	647	(672)	76,317	384	(682)	127,329	611	(623)	131,047	760	(913)
Subtotal	**95,547**	**744**	**(744)**	**125,193**	**654**	**(979)**	**144,396**	**733**	**(796)**	**155,537**	**928**	**(1,136)**
Credit derivatives investments												
Credit default swaps	600	4	(3)	400	4	(3)	200	–	–	–	–	–
Total	**181,121**	**3,025**	**(2,960)**	**258,056**	**2,262**	**(3,062)**	**272,682**	**1,677**	**(1,861)**	**239,593**	**1,560**	**(1,716)**

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

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

From December 31, 2012 to June 30, 2013

	Opening balance	Profit or loss from changes in fair value	Transfer to investment revaluation reserve from changes in fair value	Release/ (charge)	Closing balance
			(in millions of RMB)		
Non-derivative financial assets					
Financial assets held for trading.	29,084	(22)	–	–	31,473
Financial assets designated as at fair value through profit or loss	369	(12)	–	–	306
Available-for-sale financial assets	91,801	–	(175)	1	99,309
Subtotal	121,254	(34)	(175)	1	131,088
Fair value of derivatives	1,677	(117)	–	–	1,560
Total financial assets	**122,931**	**(151)**	**(175)**	**1**	**132,648**
Total financial liabilities	**(44,478)**	**328**	**–**	**–**	**(49,749)**

From December 31, 2011 to December 31, 2012

	Opening balance	Profit or loss from changes in fair value	Transfer to investment revaluation reserve from changes in fair value	Release/ (charge)	Closing balance
			(in millions of RMB)		
Non-derivative financial assets					
Financial assets held for trading.	22,170	(117)	–	–	29,084
Financial assets designated as at fair value through profit or loss	557	(10)	–	–	369
Available-for-sale financial assets	54,403	–	(295)	–	91,801
Subtotal	77,130	(127)	(295)	–	121,254
Fair value of derivatives	2,262	(585)	–	–	1,677
Total financial assets	**79,392**	**(712)**	**(295)**	**–**	**122,931**
Total financial liabilities	**(49,540)**	**913**	**–**	**–**	**(44,478)**

From December 31, 2010 to December 31, 2011

	Opening balance	Profit or loss from changes in fair value	Transfer to investment revaluation reserve from changes in fair value	Release/ (charge)	Closing balance
			(in millions of RMB)		
Non-derivative financial assets					
Financial assets held for trading	21,728	(20)	–	–	22,170
Financial assets designated as at fair value through profit or loss	669	38	–	–	557
Available-for-sale financial assets	77,142	–	(225)	–	54,403
Subtotal	99,539	18	(225)	–	77,130
Fair value of derivatives	3,025	(763)	–	–	2,262
Total financial assets	**102,564**	**(745)**	**(225)**	**–**	**79,392**
Total financial liabilities	**(36,430)**	**(297)**	**–**	**–**	**(49,540)**

Certain Information of Financial Assets and Liabilities Denominated in Foreign Currencies

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

From December 31, 2012 to June 30, 2013

	Opening balance	Profit or loss from changes in fair value	Transfer to investment revaluation reserve from changes in fair value	Release/ (charge)	Closing balance
			(in millions of RMB)		
Cash and deposits with the central bank	3,076	–	–	–	3,650
Deposits with banks and other financial institutions	5,572	–	–	–	4,961
Placement with banks and other financial institutions	1,994	–	–	–	12,376
Financial assets held under resale agreements	29	–	–	–	29
Financial assets at fair value through profit or loss	–	–	–	–	–
Fair value of derivatives	596	(275)	–	–	323
Loans and advances to customers	35,533	–	–	(74)	43,738
Available-for-sale financial assets	766	–	(4)	–	1,146
Held-to-maturity investments	712	–	–	4	611
Total financial assets	**48,278**	**(275)**	**(4)**	**(70)**	**66,834**
Total financial liabilities	**(64,386)**	**88**	**–**	**–**	**(88,113)**

From December 31, 2011 to December 31, 2012

	Opening balance	Profit or loss from changes in fair value	Transfer to investment revaluation reserve from changes in fair value	Release/ (charge)	Closing balance
			(in millions of RMB)		
Cash and deposits with the central bank	2,885	–	–	–	3,076
Deposits with banks and other financial institutions	7,338	–	–	–	5,572
Placement with banks and other financial institutions	7,332	–	–	–	1,994
Financial assets held under resale agreements	29	–	–	–	29
Financial assets at fair value through profit or loss	–	–	–	–	–
Fair value of derivatives	1,004	(408)	–	–	596
Loans and advances to customers	23,577	–	–	(476)	35,533
Available-for-sale financial assets	771	–	18	–	766
Held-to-maturity investments	843	–	–	2	712
Total financial assets	**43,779**	**(408)**	**18**	**(474)**	**48,278**
Total financial liabilities	**(51,544)**	**866**	**–**	**–**	**(64,386)**

From December 31, 2010 to December 31, 2011

	Opening balance	Profit or loss from changes in fair value	Transfer to investment revaluation reserve from changes in fair value	Release/ (charge)	Closing balance
			(in millions of RMB)		
Cash and deposits with the central bank	1,787	–	–	–	2,885
Deposits with banks and other financial institutions	4,299	–	–	–	7,338
Placement with banks and other financial institutions	4,586	–	–	–	7,332
Financial assets held under resale agreements	31	–	–	–	29
Financial assets at fair value through profit or loss	–	–	–	–	–
Fair value of derivatives	1,294	(290)	–	–	1,004
Loans and advances to customers	22,069	–	–	(30)	23,577
Available-for-sale financial assets	922	–	(33)	–	771
Held-to-maturity investments	1,019	–	–	–	843
Total financial assets	**36,007**	**(290)**	**(33)**	**(30)**	**43,779**
Total financial liabilities	**(40,174)**	**53**	**–**	**–**	**(51,544)**

CAPITAL EXPENDITURE

Our capital expenditure from January 1, 2010 through June 30, 2013 was incurred primarily in connection with the construction and improvements of our branch outlets, purchases of ATMs, development of our information management system and purchases of computers and other electronic devices.

For the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, our capital expenditure was RMB2,435 million, RMB2,083 million, RMB2,750 million and RMB794 million respectively. As of June 30, 2013, we had authorized capital commitments of RMB1,223 million, of which RMB416 million were contracted for, and RMB807 million were authorized but not contracted for. The foregoing amounts and purposes may change depending on business conditions.

FINANCIAL RATIOS

The following table sets forth, for the periods indicated, our key financial ratios.

	For the year ended December 31,			For the six months ended June 30,
	2010	**2011**	**2012**	**2013**
Return on total assets[(1)]	0.86%	1.04%	1.04%	1.21%
Return on average total assets[(2)]	0.95%	1.12%	1.18%	1.26%
Return on weighted average equity[(3)]	20.99%	20.44%	22.54%	24.59%
Net interest spread[(4)]	2.06%	2.30%	2.34%	2.04%
Net interest margin[(5)]	2.17%	2.49%	2.54%	2.23%
Net fee and commission income to operating income	13.18%	15.09%	15.78%	21.72%
Cost-to-income ratio[(6)]	35.53%	32.12%	30.19%	27.93%

Notes:

(1) Represents the net profit for the year/period (including net profit attributable to non-controlling interests) as a percentage of the respective year/period end balance of total assets on an annualized basis.

(2) Represents the net profit for the year/period (including net profit attributable to non-controlling interests) as a percentage of the average balance of total assets at the respective beginning and end of the year/period on an annualized basis.

(3) Represents the net profit attributable to equity shareholders for the year/period as a percentage of the weighted average balance of total equity for the year/period, excluding non-controlling interests on an annualized basis.

(4) Calculated as the difference between the average yield on an annualized basis on total interest-earning assets and the average cost on an annualized basis on total interest-bearing liabilities.

(5) Calculated by dividing net interest income (including the impact of fair value change of structured deposits) by average interest-earning assets on an annualized basis.

(6) Calculated by dividing total operating expenses (excluding business tax and surcharges) by operating income, prepared under IFRS.

Return on total assets

Our return on total assets was 0.86%, 1.04%, 1.04% and 1.21% for the three years ended December 31, 2010, 2011 and 2012 and for the six months ended June 30, 2013, respectively. Our return on total assets from 2011 to 2012 remained stable. The increase in our return on total assets from 2010 to 2011 and from December 31, 2012 to June 30, 2013 was primarily due to the growth in our net profit outpacing the growth of our total assets. For further details of increases in our net profit and total assets during the relevant period, please refer to the sections headed "– Results of Operations" and "Assets and Liabilities – Assets", respectively.

Return on average total assets

Our return on average total assets was 0.95%, 1.12%, 1.18% and 1.26% for the three years ended December 31, 2010, 2011 and 2012 and for the six months ended June 30, 2013, respectively. The increases in our return on average total assets were largely in line with the changes in our return on total assets.

Return on weighted average equity

Our return on weighted average equity was 20.99%, 20.44%, 22.54% and 24.59% for the three years ended December 31, 2010, 2011 and 2012 and for the six months ended June 30, 2013, respectively. The increase in the return on weighted average equity from the year ended December 31, 2012 to the six months ended June 30, 2013 was primarily due to the growth of our net profit attributable to equity shareholders outpacing the growth of our weighted average balance of total equity. Our return on weighted average equity from the year ended December 31, 2010 to the year ended December 31, 2011 remained stable.

Net interest spread

Our net interest spread was 2.06%, 2.30%, 2.34% and 2.04% for the three years ended December 31, 2010, 2011 and 2012 and for the six months ended June 30, 2013, respectively. The overall increase in our net interest spread from 2010 to 2012 was primarily due to the further optimization of our loan portfolio and the increase in the average yield on our interest-earning assets exceeding the increase in the average cost on our interest-bearing liabilities. The decrease in our net interest spread from December 31, 2012 to June 30, 2013 was primarily due to (i) the negative impact on the average yield on our interest-earning assets from the decrease in the PBOC benchmark lending interest rate in 2012 and (ii) the decrease in the inter-bank market interest rate, coupled with the average costs on our interest-bearing liabilities remaining stable during the same periods as a result of strong market demand for interest-earning deposits, in spite of the decrease in the PBOC benchmark deposit interest rate in 2012. For further details of the increase in our net interest spread during the relevant period, please refer to the section headed "– Net Interest Spread and Net Interest Margin".

Net interest margin

Our net interest margin was 2.17%, 2.49%, 2.54% and 2.23% for the three years ended December 31, 2010, 2011 and 2012 and for the six months ended June 30, 2013, respectively. The overall increase in our net interest margin from 2010 to 2012 was primarily due to the growth of our net interest income outpacing the growth of our interest-earning assets. The decrease in our net interest margin from December 31, 2012 to June 30, 2013 was primarily due to the negative impact on our net interest income from (i) the decrease in the PBOC benchmark lending interest rate in 2012 and (ii) the decrease in the inter-bank market interest rate, coupled with our interest expenses remaining stable during the same periods as a result of strong market demand for interest-earning deposits, in spite of the decrease in the PBOC benchmark deposit interest rate in 2012. For further details of the increase in our net interest spread during the relevant period, please refer to the section headed "– Net Interest Spread and Net Interest Margin".

Net fee and commission income to operating income

Our net fee and commission income to operating income was 13.18%, 15.09%, 15.78% and 21.72% for the three years ended December 31, 2010, 2011 and 2012 and for the six months ended June 30, 2013, respectively. The overall increase in our net fee and commission income to operating income from 2010 to June 30, 2013 was primarily due to the higher growth in our net fee and commission income as compared to the growth in our operating income. For further details of the increase in our net fee and commission income to operating income during the relevant period, please refer to the section headed "– Net Fee and Commission Income".

Cost-to-income ratio

Our cost-to-income ratio was 35.53%, 32.12%, 30.19% and 27.93% for the three years ended December 31, 2010, 2011 and 2012 and for the six months ended June 30, 2013, respectively. The overall decrease in our cost-to-income ratio from 2010 to June 30, 2013 was primarily due to our improved operational efficiency, including, among other aspects, a refined marketing strategy based on customer segmentation.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

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

Impairment Losses on Loans and Advances, Available-for-sale Financial Assets and Held-to-Maturity Investments

We review portfolios of loans and advances, available-for-sale financial assets and held-to-maturity investments periodically to assess whether any impairment losses exist and the amount of impairment losses if there is any indication of impairment. Objective evidence for impairment includes observable data indicating that there is a significant decrease in the estimated future cash flows for individual loans and advances, available-for-sale financial assets and held-to-maturity investments. It also includes observable data indicating adverse changes in the repayment status of the debtors, or change in national or local economic conditions that causes the default in payment.

The impairment loss for loans and advances and held-to-maturity investments that is individually assessed for impairment is the net decrease in the estimated discounted future cash flow of the assets. When the financial assets are collectively assessed for impairment, the estimate is based on historical loss experience for assets with credit risk characteristics similar to the financial assets. Historical loss experience is adjusted on the basis of the relevant observable data that reflect current economic conditions and the judgment based on our historical experience. We review the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss.

The objective evidence of impairment for available-for-sale investments includes significant or continual decline in fair value of investment. When deciding whether there is significant or continual decline in fair value, we will consider the historical fluctuation records of the market and debtors' credit condition, financial position and performance of related industry.

Fair Value of Financial Instruments

There are no quoted prices from an active market for a number of financial instruments. The fair values for these financial instruments are established by using valuation techniques. These techniques include using recent arm's length market transactions by referring to the current fair value of similar instruments, discounted cash flow analysis and option pricing models. We have established a work flow to ensure that the valuation techniques are constructed by qualified personnel and are validated and reviewed by independent personnel. Valuation techniques are certified and calibrated before implementation to ensure the valuation result reflects the actual market conditions. Valuation models established by us make maximum use of market input and rely as little as possible on our specific data. However, it should be noted that some input, such as credit and counterparty risk and risk correlations, require our estimates. We review the above estimations and assumptions periodically and make adjustments if necessary.

The Classification of the Held-to-maturity Investments

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

Income Taxes

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

Impairment of Non-financial Assets

Non-financial assets are reviewed regularly to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, an impairment loss is provided.

Since a market price of the asset (the asset group) cannot be obtained reliably, the fair value of the asset cannot be estimated reliably. In assessing the present value of future cash flows, significant judgments are exercised over the asset's selling price, related operating expenses and discounting rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the selling price and related operating expenses based on reasonable and supportable assumptions.

Depreciation and Amortization

Investment properties, fixed assets and intangible assets are depreciated and amortized using the straight-line method over their estimated useful lives after taking into account residual values. The estimated useful lives are regularly reviewed to determine the depreciation and amortization costs charged in each reporting period. The estimated useful lives are determined based on historical experiences of similar assets and the estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation or amortization, the amount of depreciation or amortization will be revised.

INDEBTEDNESS

As of October 31, 2013, being the latest practicable date for determining our indebtedness, we had the following indebtedness:

(a) subordinated debts issued in an aggregate principal amount of RMB14.7 billion, including:

   (i) fixed rate subordinated debts of RMB5.0 billion with a term of ten years issued on December 15, 2008. The coupon rate for the first five years is 4.05%. We have an option to redeem the debts on December 17, 2013 at the nominal amount. If the debts are not redeemed by us, the coupon rate will increase to 7.05% for the next five years;

   (ii) fixed rate subordinated debts of RMB3.0 billion with a term of ten years issued on March 13, 2009. The coupon rate for the first five years is 3.75%. We have an option to redeem the debts on March 17, 2014 at the nominal amount. If the debts are not redeemed by us, the coupon rate will increase to 6.75% for the next five years; and

   (iii) fixed rate subordinated debts of RMB6.7 billion with a term of fifteen years issued on June 7, 2012. The coupon rate is 5.25%. We have an option to redeem the debts on June 8, 2022 at the nominal amount;

(b) financial bonds issued in an aggregate principal amount of RMB30.0 billion, including:

   (i) fixed rate financial bonds of RMB20.0 billion with a term of five years issued on March 28, 2012 with a coupon rate of 4.20%; and

   (ii) floating rate financial bonds of RMB10.0 billion with a term of five years issued on March 28, 2012, bearing interest at a floating rate based on the PBOC's one-year time deposits rate plus a margin of 0.95%;

(c) Certificates of deposit in an aggregate principal amount of RMB1,000.5 million;

(d) deposits from customers, deposits and placements from banks and other financial institutions, and financial assets sold under repurchase agreements that arose from the normal course of our banking business; and

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

We have announced on November 15, 2013 that we would exercise our redemption option on December 17, 2013 to fully redeem the RMB5 billion ten-year fixed rate subordinated debt issued on December 15, 2008.

Our general meeting of Shareholders approved the issuance of tier two capital debt of up to RMB20.0 billion in May 2013 and we received the approval from the CBRC for the issuance of tier two capital debt of up to RMB16.2 billion in August 2013. The issuance, schedule and size of such tier two capital debt will depend on the approval from the PBOC, the market conditions and our funding requirements.

Except for the above, we did not have, as of October 31, 2013, any outstanding mortgages, charges, debentures or other loan capital (issued or agreed to be issued), bank overdrafts, loans, liabilities under acceptance or other similar indebtedness, leasing and financial leasing commitments or any guarantees or other material contingent liabilities.

Our Directors have confirmed that there has not been any material change in the indebtedness or contingent liabilities of our Bank since October 31, 2013 and up to the Latest Practicable Date.

RULES 13.13 TO 13.19 OF THE HONG KONG LISTING RULES

Except as disclosed in this prospectus, as of the Latest Practicable Date, we confirm that we were not aware of any circumstances which would give rise to a disclosure obligation under Rule 13.13 to Rule 13.19 of the Listing Rules.

DIVIDEND POLICY

Our Board of Directors is responsible for submitting proposals in respect of dividend payments, if any, to the general meeting of Shareholders for approval. The determination of whether to pay dividends and the amount of such dividends is based on our results of operations, cash flows, financial condition, capital adequacy ratios, future business prospects, statutory and regulatory restrictions on the payment of dividends by us and other factors that our Board of Directors considers relevant. Under the PRC Company Law and our Articles of Association, all of our Shareholders holding the same class of shares have equal rights to dividends and other distributions proportionate to their shareholding. Under PRC laws, we may only pay dividends out of our distributable profit. Such distributable profit is the lower of our net profit determined under PRC GAAP or IFRS, less:

- our accumulated loss;
- appropriations we are required to make to the statutory surplus reserve, which is currently 10% of the unconsolidated net profit of our Bank as determined under PRC GAAP, until such reserve reaches an amount equal to 50% of our registered capital;
- a general reserve we are required to set aside; and
- appropriations to a discretionary surplus reserve as approved by the Shareholders in a general meeting.

Prior to July 1, 2012, pursuant to relevant regulations issued by the MOF, we were required to set aside a general reserve through appropriations of profit after tax according to a certain provision ratio of the ending balance of gross risk-bearing assets to cover potential losses against our assets. In principle, the general reserve balance should not be lower than 1% of the ending balance of gross risk-bearing assets.

With effect from July 1, 2012, pursuant to the Administrative Measures on Accrual of Provisions by Financial Institutions (金融企業準備金計提管理辦法) issued by the MOF in March 2012, we are required, in principle, to set aside a general reserve not lower than 1.5% of the ending balance of our gross risk-bearing assets.

Any distributable profit that is not distributed in a given year is retained and available for distribution in subsequent years. According to our Articles of Association, unless there are special circumstances as set forth therein, we will distribute cash dividends if we record net profit for the year and positive accumulated retained earnings. We may also undertake interim profit distributions. The payment of any dividends by us must also be approved at a general meeting of Shareholders. We are prohibited from making any profit distributions to our Shareholders before recovering our accumulated losses and making appropriations to the statutory surplus reserve and the general reserve. If we make any profit distributions in violation of these rules, our Shareholders are required to return the amounts they received in such profit distributions to us. For more details, see "Appendix VI – Summary of Articles of Association – (n) Dividends and Other Methods of Distributions".

The CBRC has the discretionary authority to prohibit any bank that fails to fulfill capital adequacy ratio requirement, or has violated certain PRC banking regulations, from paying dividends and making other forms of distributions. See "Supervision and Regulation – PRC Banking Supervision and Regulation – Supervision Over Capital Adequacy – Supervision on capital adequacy level by the CBRC" and "Supervision and Regulation – PRC Banking Supervision and Regulation – Principal Regulators – CBRC." As of June 30, 2013, we had a capital adequacy ratio of 9.67% and a core tier-one capital adequacy ratio of 7.77%.

In 2011, 2012 and 2013, we declared and paid dividends of RMB3,825 million for the year 2010, RMB5,378 million for the year 2011 and RMB2,345 million for the year 2012, respectively. These dividends were declared based on the number of our A Shares in issue at the record dates in those respective years.

At our annual general meeting of Shareholders held on May 17, 2013, our Shareholders adopted a resolution that the accumulated undistributed profits prior to the Global Offering will be attributable to both our existing Shareholders and our new Shareholders after the Global Offering.

In compliance with relevant PRC laws and regulations, the requirements of the securities regulatory authorities of the jurisdictions where our Shares are listed and our Articles of Association, and in consideration of the interests of our Shareholders and our business development needs, for the years 2013 and 2014, our Board will develop an annual dividend distribution plan for submission to the annual general meeting of Shareholders for approval.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following statement of our unaudited pro forma adjusted consolidated net tangible assets is prepared based on our consolidated net tangible assets as of September 30, 2013 as shown in the Unaudited Interim Financial Information, the text of which is set out in Appendix II to this prospectus, adjusted as described below.

The statement of unaudited pro forma adjusted consolidated net tangible assets has been prepared to show the effect of the Global Offering on our consolidated net tangible assets at September 30, 2013 as if it had occurred on September 30, 2013.

The statement of the unaudited pro forma adjusted consolidated net tangible assets of our Bank has been prepared for illustrative purposes only and, as a result, may not give a true picture of our financial position following the completion of the Global Offering.

	Unaudited consolidated net tangible assets attributable to our equity shareholders as of September 30, 2013(1)	Estimated net proceeds from the Global Offering(2)	Unaudited pro forma adjusted consolidated net tangible assets attributable to our equity Shareholders(3)	Unaudited pro forma adjusted consolidated net tangible assets per Share(4)	
	RMB Million	RMB Million	RMB Million	RMB	HK$(5)
Based on the offer price of HK$3.83 per Offer Share...	130,312	15,058	145,370	3.19	4.03
Based on the offer price of HK$4.27 per Offer Share...	130,312	16,800	147,112	3.23	4.08

Notes:

(1) The consolidated net tangible assets as of September 30, 2013 is compiled based on the unaudited consolidated financial information included in the Unaudited Interim Financial Information set out in Appendix II to the prospectus, which is based on the unaudited consolidated net assets attributable to our equity shareholders as of September 30, 2013 of RMB132,136 million with an adjustment for intangible assets and goodwill of 543 million and RMB1,281 million, respectively, as of September 30, 2013.

(2) The estimated net proceeds from the Global Offering are based on the offer price of HK$3.83 per H share to HK$4.27 per H Share and the assumption that there are 5,080,000,000 newly issued H Shares in the Global Offering, after deduction of the underwriting fees and other related expenses payable by us, assuming that neither the Offer-Size Adjustment Option nor the Over-allotment Option is exercised and without taking into account any discretionary incentive fees.

(3) The unaudited pro forma adjusted consolidated net tangible assets do not take into account the financial results for the period from and including October 1, 2013 to the date immediately preceding the Listing Date.

(4) The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after the adjustments referred to in note 1 above and on the basis that 45,514,790,000 Shares are issued and outstanding following the completion of the Global Offering and that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised.

(5) The conversion of Renminbi into Hong Kong dollars has been made at the rate of RMB0.79103 to HK$1.00, the exchange rate set by the PBOC prevailing on November 29, 2013. No representation is made that the Hong Kong dollar amounts have been, could have been or could be converted to Renminbi, or vice versa, at that rate, or at any other rate or at all.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that up to the date of this prospectus, other than as disclosed in this prospectus, there has been no material adverse change in our financial or trading position since June 30, 2013, being the date of our latest audited financial results as set out in the Accountants' report in Appendix I to this prospectus.

LISTING EXPENSES

We incur listing expenses in connection with the Listing, which include professional fees and underwriting commissions and fees. Assuming an Offer Price of HK$4.05 per Offer Share (being the midpoint of the indicative offer price range of HK$3.83 to HK$4.27 per Offer Share), we expect listing expenses to be borne by us to amount to approximately HK$458 million, assuming that neither the Offer-Size Adjustment Option nor the Over-allotment Option is exercised and without taking into account any discretionary incentive fees. Of the listing expenses, HK$21 million is expected to be charged to our consolidated statements of comprehensive income and HK$437 million is expected to be accounted for as a deduction from equity.

WORKING CAPITAL

Rule 8.21A(1) and Paragraph 36 of part A of Appendix 1A of the Listing Rules require this prospectus to include a statement by our Directors that, in their opinion, the working capital available to our Bank is sufficient for at least 12 months from the publication of this prospectus or, if not, how it is proposed to provide the additional working capital our Directors consider to be necessary. We are of the view that the traditional concept of "working capital" does not apply to banking businesses such as ours. We are regulated in the PRC by, among others, the PBOC and the CBRC. These regulatory authorities impose minimum capital adequacy and liquidity requirements on commercial banks operating in the PRC. Rule 8.21A(2) of the Listing Rules provides that such a working capital statement will not be required to be made by an issuer whose business is entirely or substantially that of the provision of financial services, provided that the Hong Kong Stock Exchange is satisfied that the inclusion of such a statement would not provide significant information for investors and the issuer's solvency and capital adequacy are subject to prudential supervision by another regulatory body. In view of the above, pursuant to Rule 8.21A(2) of the Listing Rules, we are not required to include a working capital statement from our Directors in this prospectus.