PRC REGULATION AND SUPERVISION

Principal Regulators

Prior to April 2003, the PBOC acted as both China's central bank and the principal supervisor and regulator of the banking industry in China. In April 2003, the CBRC was established to become the primary banking industry regulator and assumed the majority of the regulatory functions from the PBOC. The PBOC retained its role as the central bank.

The CBRC

Functions and Powers

The CBRC is the primary supervisory authority and is responsible for the regulation of banking institutions operating in China, including commercial banks, other deposit-taking institutions and policy banks, as well as certain non-banking financial institutions under its authority such as asset management companies, trust and investment companies, finance companies and financial leasing companies. According to the Banking Supervision and Regulation Law enacted in December 2003, the main responsibilities of the CBRC include:

- setting rules and regulations governing banking institutions and their activities;
- regulating the establishment, change and dissolution of banking institutions, as well as granting banking licenses for commercial banks and their branches;
- regulating the business activities of banking institutions, including the products and services they offer;
- setting qualification requirements for, and approving or overseeing the nomination of, directors and senior management personnel of banking institutions;
- setting guidelines and standards for internal controls and corporate governance of, and disclosure requirements for, banking institutions;
- conducting on-site inspection and off-site surveillance of the business activities of banking institutions;
- monitoring the financial condition of banking institutions, including establishing standards or requirements for capital adequacy, asset quality and other financial metrics; and
- imposing corrective and punitive measures for violations of applicable banking regulations.

Examination and Supervision

The CBRC, through its head office in Beijing and offices in each province, monitors the operations of commercial banks and their branches through on-site inspections and off-site surveillance. On-site inspections generally include visiting the banks' premises, interviewing bank employees and, for significant issues relating to banks' operations or risk management, senior management and directors as well as reviewing documents and materials maintained by the banks. The CBRC also conducts off-site surveillance by reviewing financial and other reports regularly submitted by the banks. If a banking institution is not in compliance with a regulation, the CBRC has the power to issue corrective and punitive measures, including fines, the suspension of certain business activities, restrictions on dividend distributions and asset transfers, and other penalties.

The PBOC

As the central bank of the PRC, the PBOC is responsible for formulating and implementing monetary policies and maintaining the stability of the financial markets. According to the PBOC Law enacted in 1995 and amended in 2003, the PBOC is empowered to:

- formulate and implement monetary policies by establishing benchmark interest rates, setting the deposit reserve ratios for commercial banks, extending loans to commercial banks, accepting discounted bills and conducting open market operations;
- issue PRC treasury bills and other government bonds to financial institutions, as the agent of the MOF;
- regulate the domestic inter-bank lending market and the trading by institutional investors in the inter-bank bond market of debt instruments issued by the PRC government, its agencies and financial institutions;
- set foreign exchange rate policies and manage China's foreign exchange reserves and gold reserves;
- regulate and examine foreign exchange activities; and
- establish anti-money-laundering guidelines and monitor fund transfers for compliance with anti-money-laundering regulations.

Licensing Requirements

Basic Requirements

The Commercial Banking Law, enacted in 1995 and amended in 2003, defines the business scope of commercial banks and establishes licensing standards and other requirements. The establishment of a commercial bank requires the CBRC's approval and issuance of an operating license. In general, the CBRC will not approve an application for establishing a commercial bank unless certain conditions are satisfied, among others:

- the articles of association of the proposed commercial bank comply with relevant requirements of the Commercial Banking Law and the PRC Company Law;
- the registered capital of the proposed bank meets the minimum requirement under the Commercial Banking Law. The minimum registered capital for a national commercial bank, city commercial bank and rural commercial bank is RMB 1.0 billion, RMB 100 million and RMB 50 million, respectively; and
- the directors and senior management of the proposed bank must possess the requisite professional skills and working experience.

Fundamental Changes

Banks are required to obtain the CBRC's approval if they undergo any fundamental change, including, among others:

- change of name;
- change of registered capital;

- change of the principal place of business for the head office or for a branch;
- change of business scope as set forth in the business license;
- any purchase of an equity interest in the bank that results in the purchaser becoming a holder of 5% or more of the bank's shares and any change of shareholders holding 5% or more of the bank's total capital or shares;
- amendment to the articles of association; and
- merger or separation.

Establishment of Branches

Domestic Branches

A commercial bank must apply to the CBRC or its local offices for approval and issuance of an operating license to establish a branch. A branch must have sufficient operating funds commensurate with its scale and must meet other operating requirements. The sum of the operating funds provided to all branches of a bank may not exceed 60% of the total capital of the bank.

Overseas Branches

The establishment of overseas branches by PRC commercial banks is subject to the CBRC's approval in addition to all applicable local regulations. In general, the CBRC will not approve an overseas branch application unless the applicant bank has been approved to engage in the foreign exchange business, has engaged in the foreign exchange business for more than 3 years and has a legitimate source of foreign exchange funds. In addition, the applicant bank is required to have a minimum of RMB 80 million equivalent of foreign currency assets.

Regulation of Principal Commercial Banking Activities

Lending

PRC banking regulations require commercial banks to take into consideration government macroeconomic policies in making lending decisions. Accordingly, commercial banks are encouraged to restrict their lending to borrowers in restricted industries in accordance with relevant government policies.

Commercial banks are required to conduct due diligence investigations on corporate borrowers before extending credit to them. After credit is granted, commercial banks must continue to monitor factors that may affect the ability of the borrower to repay and must prepare written credit assessment reports on a regular basis.

Regulations and rules impose a number of restrictions on commercial banks wishing to extend real estate loans. Commercial banks are encouraged to finance residential housing projects for medium- and low-income families, while loans financing luxury housing projects are subject to restrictions. Under the Guidelines on Risk Management of Commercial Banks' Real Estate Loans, banks are prohibited from making loans to real estate developers unless they have funded a minimum of 35% of the total investment of the real estate development project in the form of equity. Banks must focus on the repayment ability of the residential mortgage loan borrower to ensure that the borrower's monthly housing expense and his total monthly debt service is no more than 50% and 55%, respectively, of his monthly income. In addition, according to a judicial interpretation issued by the Supreme Court of the PRC, effective January 1, 2005, courts may not foreclose on, auction off, or otherwise liquidate collateral if the collateral is the borrower's essential residence. See "Risk Factors — Risks Relating to Our Loan Portfolio — We may be unable to realize the full value of the collateral or guarantees securing our loan portfolio."

The Automobile Loan Measures require commercial banks to establish credit rating systems for borrowers of such loans. In addition, the amount of loans for self-use automobiles, commercial vehicles and second-hand automobiles may not exceed 80%, 70% and 50%, respectively, of the purchase price of such vehicles.

Foreign Exchange Business

Commercial banks are required to obtain CBRC and SAFE approvals in order to conduct foreign exchange business and are also required to regularly submit reports to the SAFE, including a balance sheet of assets and liabilities denominated in foreign currencies, a profit and loss statement and other financial information. In addition, foreign exchange transactions falling within the capital account are subject to foreign exchange controls and require SAFE approval.

Securities and Asset Management Businesses

Commercial banks in China are generally prohibited from trading and underwriting equity securities. Commercial banks may underwrite and deal in debt securities of the PRC government and financial institutions.

Commercial banks in China are permitted to act as agents in transactions involving securities, including debt securities issued by the government, corporate entities and financial institutions. In addition, commercial banks are permitted to provide institutional and individual investors with comprehensive asset management advisory services, including portfolio investment advice, investment analysis, tax consulting and risk analysis. They may also act as financial advisers in connection with large infrastructure projects, mergers and acquisitions, and bankruptcy reorganizations. Moreover, commercial banks may act as custodians for asset management companies and investment funds.

Under the Trial Administrative Measures on Fund Management Companies Owned by Commercial Banks, the big four commercial banks and the other national commercial banks are permitted to establish or acquire fund management companies, upon approval by the CBRC and the CSRC. Commercial banks are required to implement detailed measures to segregate risks associated with the securities market and the banking sector, which include, among others, separating client information between commercial banks and their fund management companies, preventing commercial banks' employees from holding concurrent positions in the fund management companies established or acquired by such commercial banks and prohibiting commercial banks from acting as custodians for the funds managed by their fund management companies.

Insurance

Commercial banks in China are not permitted to underwrite insurance policies, but are permitted to act as agents to sell insurance products through their distribution networks. Commercial banks providing insurance agency services are required to comply with any applicable rules issued by the China Insurance Regulatory Commission, the regulator for China's insurance industry.

Proprietary Investments

In general, commercial banks in China are prohibited from making domestic investments other than in debt instruments issued by the government, financial institutions, commercial paper issued by qualified non-financial institutions, and derivative products. Unless approved by the PRC government, commercial banks are prohibited from engaging in trust investment business, investing in real estate other than for their own use, investing in domestic corporate bonds, and making equity investments in entities other than banks.

Derivatives

Under the Tentative Administrative Measures on Trading of Derivatives by Financial Institutions, commercial banks in China seeking to conduct a derivatives business must obtain prior approval from the CBRC by meeting relevant qualification requirements, which include, among others, the establishment of a sound risk management system that monitors risk on a real-time basis; a sound internal control system; and an effective derivatives transaction processing system. In addition, the bank must have a competent professional team to conduct the derivatives business. Banks conducting derivatives business are required to strictly implement trading and exposure authorization limits and stop loss limits. They are also required to comply with detailed requirements relating to corporate governance and internal controls, including approval procedures for new products, as well as risk supervision and assessment.

Pricing of Products and Services

Interest Rates for Loans and Deposits

Banks are required to set interest rates on RMB-denominated loans and deposits within permitted bands around the benchmark rates set by the PBOC. Since January 1, 2002, the PBOC has adjusted the overall benchmark rates for RMB-denominated loans and deposits twice: on February 21, 2002 and October 29, 2004. On March 17, 2005, the PBOC also increased benchmark rates for residential mortgage loans and entrusted provident housing fund mortgage loans. The following table sets forth the applicable benchmark interest rates in effect in the time periods indicated.

	PBOC benchmark interest rates for RMB-denominated loans and deposits		
	From 6/10/99 to 02/20/02	From 02/21/02 to 10/28/04	Since 10/29/04
	(% per annum)		
Loans			
Less than six months	5.58%	5.04%	5.22%
Six months to one year	5.85	5.31	5.58
One to three years	5.94	5.49	5.76
Three to five years	6.03	5.58	5.85
More than five years	6.21	5.76	6.12
Residential mortgage loans:(1)			
Five years or less	5.31	4.77	4.95
More than five years	5.58	5.04	5.31
Entrusted provident housing fund mortgage loans:			
Five years or less	4.14	3.60	3.78(2)
More than five years	4.59%	4.05%	4.23%(3)

	PBOC benchmark interest rates for RMB-denominated loans and deposits		
	From 6/10/99 to 02/20/02	From 02/21/02 to 10/28/04	Since 10/29/04
	(% per annum)		
Deposits			
Demand	0.99%	0.72%	0.72%
Time:			
Three months	1.98	1.71	1.71
Six months	2.16	1.89	2.07
One year	2.25	1.98	2.25
Two years	2.43	2.25	2.70
Three years	2.70	2.52	3.24
Five years	2.88%	2.79%	3.60%

(1) Effective March 17, 2005, the PBOC benchmark mortgage rates are the same as the PBOC benchmark rates for loans with the same terms.

(2) Increased to 3.96% since March 17, 2005.

(3) Increased to 4.41% since March 17, 2005.

As the PRC government further liberalizes its interest rate regime, the banks have been given more discretion in determining the interest rates that may be charged on RMB-denominated loans and the interest rates that may be offered on RMB-denominated deposits. The following table sets forth the permitted interest rate bands for RMB-denominated loans and deposits at the dates indicated.

	Loans			Deposits		
	Between 9/1/99 and 1/1/04[1]	Between 1/1/04 and 10/29/04[2]	Since 10/29/04	Between 9/1/99 and 1/1/04	Between 1/1/04 and 10/29/04	Since 10/29/04
Maximum interest rates	Up to 130% of the PBOC benchmark rate for small- and medium-sized enterprises and up to 110% for large enterprises	Up to 170% of the PBOC benchmark rate (up to 200% for rural credit cooperatives)	No cap (up to 230% for rural and urban credit cooperatives)	PBOC benchmark rate except for negotiated deposits	PBOC benchmark rate except for negotiated deposits	PBOC benchmark rate except for negotiated deposits
Minimum interest rates	Not lower than 90% of the PBOC benchmark rate	Not lower than 90% of the PBOC benchmark rate	Not lower than 90% of the PBOC benchmark rate	PBOC benchmark rate except for negotiated deposits	PBOC benchmark rate except for negotiated deposits	No minimum

(1) Interest rates for residential mortgage loans, public assistance loans, policy loans and certain other loans specified by the State Council may not exceed the PBOC benchmark rate.

(2) Interest rates for residential mortgage loans, public assistance loans and certain other loans specified by the State Council may not exceed the PBOC benchmark rate.

Prior to January 1, 2004, all RMB-denominated loans with a maturity of one year or less were required to have fixed interest rates and all RMB-denominated loans with a maturity longer than one year were required to have floating interest rates. When the applicable PBOC benchmark interest rates changed, the interest rates on floating rate corporate loans were generally reset on the next anniversary of the loan origination date following the date of change, while the interest rates on floating rate residential mortgage loans were generally reset on January 1 of the year following the date of change. Since January 1, 2004, loans with a maturity longer than one year have been allowed to bear fixed interest rates. For corporate loans and personal consumption loans, banks have been allowed to negotiate the terms of floating interest rates on a monthly, quarterly or annual basis. For residential mortgage loans, personal educational loans and certain other specified loans, the terms of floating interest rates are renegotiated on January 1 of the year following the date of the change in the applicable benchmark interest rate. Since March 17, 2005, interest rates for residential mortgage loans have the same reset mechanism as other commercial loans.

The PBOC generally does not regulate interest rates for foreign currency-denominated loans and generally does not regulate foreign currency-denominated deposits other than U.S. dollar, Hong Kong dollar, Japanese Yen or Euro-denominated deposits of less than US$3 million equivalent with a maturity of one year or less, the interest rates on which may not exceed the maximum interest rates based on the PBOC benchmark rates.

Banks are allowed to set interest rates for discounted bills based on the PBOC rediscount rates provided that they do not exceed the benchmark interest rates for loans of the same maturity period. The PBOC rediscount rate was 2.16% from June 10, 1999 to September 10, 2001, 2.97% from September 11, 2001 to March 24, 2004, and 3.24% since March 25, 2004.

Pricing for Fee- and Commission-based Products and Services

Under the Tentative Administrative Measures on Pricing of Commercial Banking Services, the services which are subject to government guidance prices include basic Renminbi settlement services, such as bank drafts, bank acceptance drafts, promissory notes, checks, remittances, entrusted collection, and other services specified by the CBRC and the NDRC. Fees for other products and services are determined by banks based on market conditions. Banks are also required to report to the CBRC at least fifteen business days prior to the implementation of new fee schedules and to publish such fee schedules in their relevant business offices at least ten business days prior to their implementation.

Operating Requirements

Statutory Deposit Reserve and Surplus Deposit Reserve

Commercial banks are required to maintain a percentage of their total deposits with the PBOC to ensure they have sufficient liquidity for customer withdrawals. Currently, most commercial banks are required to maintain a reserve ratio of 7.5% of total outstanding Renminbi deposits. Those banks which fail to meet certain PBOC standards are required to maintain a reserve ratio of 8.0%. The deposit reserve ratio was increased from 6.0% to 7.0% in September 2003 and from 7.0% to 7.5% in April 2004. Prior to January 15, 2005, domestic banks licensed to conduct foreign exchange activities were required to maintain a reserve ratio equal to 2% of their total foreign currency deposits. Foreign-invested commercial banks were required to maintain a reserve ratio equal to 5% of total deposits with terms of less than three months and 3% for deposits with terms of three months or more. From January 15, 2005, both domestic banks and foreign-invested commercial banks are required to maintain 3% of their total foreign currency-denominated deposits as a reserve.

In addition, banks maintain surplus deposit reserves with the PBOC, which are deposits exceeding the statutory deposit reserve. Surplus deposit reserves are used in part for settlement purposes. Since a reform of the deposit reserve system in 1998, the PBOC has actively monitored the levels of surplus deposit reserves maintained by commercial banks in an effort to ensure that the banks have sufficient funds to meet their settlement obligations. We were recently advised by the PBOC that we maintained appropriate levels of surplus deposit reserves, comparable to those of the other three big four commercial banks, to meet such obligations in 2004, 2003 and 2002.

The PBOC pays interest on deposit reserves maintained by the commercial banks. Since February 21, 2002, the interest rate for statutory deposit reserves has been 1.89%. The PBOC has lowered the interest rates it pays on banks' surplus deposit reserves twice since February 21, 2002: from 1.89% to 1.62% on December 21, 2003, and from 1.62% to 0.99% on March 17, 2005.

Liquidity and Other Operational Ratios

The following table sets forth, as of the dates indicated, the required liquidity and loan-to-deposit ratios for commercial banks in the PRC, as well as our liquidity and loan-to-deposit ratios as reported to the PBOC and the CBRC, which were calculated in accordance with the formula promulgated by the PBOC in 1996 and based on our balance sheet data prepared in accordance with then applicable PRC GAAP.

		As of December 31,			As of June 30,
	Requirement	2002	2003	2004	2005
		(in percentages)			
Liquidity ratios					
Renminbi current assets to Renminbi current liabilities	≥25.0%	25.7%	44.6%	51.4%	55.8%
Foreign currency current assets to foreign currency current liabilities	≥60.0	35.3	41.3	71.2	80.6
Loan-to-deposit ratios					
Renminbi loans to Renminbi deposits	≤75.0	65.3	66.5	61.0	57.7
Foreign currency loans to foreign currency deposits	≤85.0	67.7	87.8	88.0	83.1
Renminbi medium- and long-term loans to Renminbi medium- and long-term deposits	≤120.0	111.2	123.3	124.2	107.5
Foreign currency medium- and long-term loans to foreign currency medium- and long-term deposits	≤60.0%	26.6%	29.1%	34.0%	37.8%

The following table sets forth, as of the dates indicated, certain other operational ratios for commercial banks under the relevant PRC regulations, as well as such ratios for our domestic banking operations as reported to the PBOC and the CBRC, which were calculated in accordance with the formula promulgated by the PBOC in 1996 and based on our balance sheet data prepared in accordance with then applicable PRC GAAP.

		As of December 31,			As of June 30,
	Requirement	2002	2003	2004	2005
		(in percentages)			
Borrower concentration ratios					
Total outstanding loans to one single borrower to regulatory capital(1)	≤10.0%	30.1%	28.1%	9.5%	9.4%
Total loans granted to top ten borrowers to regulatory capital(1)	≤50.0	87.2	85.2	41.5	37.8
Inter-bank ratios					
Total RMB inter-bank borrowings from other banks and financial institutions to total RMB deposits	≤4.0	0.0	0.0	0.0	0.0
Total RMB inter-bank lending to other banks and financial institutions to total RMB deposits	≤8.0	0.7	0.5	0.4	0.2
Offshore use of funds ratio					
Total offshore investments (including overseas loans, overseas equity investments and offshore deposits) to total assets in foreign currencies	≤30.0	34.0	4.7	36.3	36.6
Reserve ratios					
RMB reserve deposits with the PBOC plus RMB cash to RMB deposits	≥5.0	10.8	11.1	12.2	10.7
Foreign currency deposits with other financial institutions plus cash in foreign currencies to total foreign currency deposits	≥5.0%	4.5%	5.5%	5.5%	6.0%

(1) Our regulatory capital as of June 30, 2005 and December 31, 2004 was calculated in accordance with CBRC guidelines, and our regulatory capital as of December 31, 2003 and 2002 was calculated in accordance with PBOC guidelines which were replaced by new CBRC guidelines in March 2004. See "Regulation and Supervision — PRC Regulation and Supervision — Regulations Regarding Capital Adequacy — Capital Adequacy Guidelines" and "Financial Information — Capital Resources — Capital Adequacy."

In February 2005, the CBRC published the Consultation Paper on the Core Regulatory Ratios with Respect to Risk Management for PRC Commercial Banks, or the Consultation Paper, which proposed to amend certain of the above-mentioned ratios and to introduce certain new liquidity and other operational ratios. The Consultation Paper is currently under review by the banking industry in China.

As set forth in the above tables, we were not in compliance with respect to the following ratios as of some of the dates indicated:

- foreign currency current assets to foreign currency current liabilities;
- foreign currency loans to foreign currency deposits;
- Renminbi medium- and long-term loans to Renminbi medium- and long-term deposits;
- total outstanding loans to a single borrower to regulatory capital;
- total loans granted to top ten borrowers to regulatory capital;

- total offshore investments (including overseas loans, overseas equity investments and offshore deposits) to total foreign currency-denominated assets; and
- foreign currency deposits with other financial institutions plus cash in foreign currencies to total foreign currency deposits.

Under the Consultation Paper, only two of the ratios with which we did not comply were designated as core regulatory ratios: the ratio of foreign currency current assets to foreign currency current liabilities and the ratio of total outstanding loans to a single borrower to the bank's regulatory capital. Moreover, the Consultation Paper proposes to reduce the foreign currency liquidity ratio from 60% to 25%; we would have complied with this ratio had it been amended as of the dates indicated.

We have not been subject to any regulatory sanctions by the CBRC or other regulatory authorities for our noncompliance with the above-mentioned ratios. We currently believe, based on the advice of our PRC legal counsel, Commerce & Finance Law Offices, that the likelihood of any regulatory sanctions for such non-compliance by the CBRC that could result in a material adverse effect on our business, results of operations or financial condition is remote. See, however, "Risk Factors — Risks Relating to Our Business — We are subject to certain operational requirements as well as guidelines set by the PRC banking regulatory authorities."

As of June 30, 2005, we were in compliance with all of the regulatory requirements set forth above except the offshore use of funds ratio. This is primarily due to the limited channels available for PRC commercial banks to utilize their foreign exchange assets within the PRC, as foreign currency investment opportunities in the PRC have been largely limited to loans. The offshore use of funds ratio is not designated as a core regulatory ratio in the Consultation Paper.

Specific Operating Targets Applicable to Us and the Bank of China

As part of a PRC government pilot reform program, we and the Bank of China are subject to certain operating targets under guidelines issued by the CBRC in March 2004. The following table sets forth, as of the dates indicated, these operating targets and our respective results, which, unless otherwise specified, were calculated based on our financial statements prepared in accordance with IFRS.

	Requirement	As of December 31, 2004	As of June 30, 2005
Return on average total assets ratio(1)	≥ 0.6% by the end of 2005, subject to further increases beginning in 2007	1.3%	1.4%(2)
Return on average shareholders' equity ratio(3)	≥11.0% by the end of 2005; ≥13.0% by the end of 2007	25.6	28.6(2)
Cost-to-income ratio(4)	35.0-45.0% by the end of 2005	39.9	32.2
Non-performing assets to total assets ratio(4)	3.0-5.0% by the end of 2004	3.3	3.1
Capital adequacy ratio(4)	≥8.0% by the end of 2004	11.3	10.7
Ratio of loans to a single borrower to regulatory capital	≤10.0% by the end of 2005	9.5	9.4
Ratio of allowance for impairment losses to non-performing loans	≥80.0% by the end of 2005, subject to further increases beginning in 2007	61.6%	63.5%

(1) Calculated by dividing net profit by the average of total assets as of the beginning and end of the period.

(2) Based on annualized figures.

(3) Calculated by dividing net profit by average shareholders' equity. Average shareholders' equity is calculated as the average of shareholders' equity as of the beginning and end of the period.

(4) Calculated based on our financial statements prepared in accordance with PRC GAAP. Consequently, the percentages for the cost-to-income ratio presented above are not comparable to the percentages for that ratio contained elsewhere in this prospectus. See "Summary — Summary Financial Information — Selected Financial Data — Selected Financial Ratios."

We were required to be in compliance with the non-performing assets to total assets ratio and the capital adequacy ratio set forth above by the end of 2004. We have been in compliance with such requirements since December 31, 2004. As of June 30, 2005, our non-performing assets to total assets ratio was 3.1% and our capital adequacy ratio was 10.7%, both in compliance with the ratio targets.

We do not expect to be in compliance with the required ratio of allowance for impairment losses to non-performing loans by December 31, 2005. However, the CBRC has granted us until the end of 2007 to meet this requirement or, if the requirement is amended, the amended requirement. Furthermore, we believe that our allowance for impairment losses is adequate to cover expected losses on our non-performing loans.

Regulations Regarding Capital Adequacy

Capital Adequacy Guidelines

PRC commercial banks are subject to a minimum capital adequacy ratio of 8% and a minimum core capital adequacy ratio of 4%. Prior to March 1, 2004, a commercial bank's capital adequacy ratios were calculated as follows:

$$\text{Capital adequacy ratio} = \frac{\text{Regulatory capital}}{\text{On- and off-balance sheet risk weighted assets}} \times 100\%$$

$$\text{Core capital adequacy ratio} = \frac{\text{Core capital}}{\text{On- and off-balance sheet risk weighted assets}} \times 100\%$$

In the preceding formula, core capital included paid-in capital, capital reserves, surplus reserves and retained earnings. Regulatory capital included both core capital and supplementary capital, less certain deductions (including equity investments in other banks and enterprises, and investments in real estate not for the bank's own use). Supplementary capital included the general allowance for loan losses, bad debts and investment risk, and long-term bonds with a minimum original maturity of five years. Different risk weightings were assigned for cash, obligations of the PRC central government and the PBOC, loans to enterprises and individuals, inter-bank loans and other assets, as well as for off-balance sheet items.

In March 2004, the CBRC implemented new, more stringent capital adequacy guidelines applicable to all commercial banks in China. The new guidelines, the Administrative Measures on Capital Adequacy Ratios of Commercial Banks, provide for a phase-in period whereby all domestic banks must meet minimum capital adequacy ratios by January 1, 2007. Banks not immediately in compliance with the new guidelines must formulate and implement a capital replenishment plan under the supervision of the CBRC. Under additional guidance issued by the CBRC, we and Bank of China were required to meet the new CBRC capital adequacy guidelines beginning in 2004. See "— PRC Regulation and Supervision — Operating Requirements — Specific Operating Targets Applicable to Us and the Bank of China."

While the new guidelines left the existing requirements of an 8% capital adequacy ratio and a 4% core capital adequacy ratio unchanged, they amended the risk weighting for a variety of assets and required deductions from core capital for certain kinds of assets. In addition, the new guidelines required commercial banks to make adequate allowances for various impairment losses, including for loans, before calculating their capital adequacy ratios. The capital adequacy ratio and core capital adequacy ratio are calculated in accordance with the PRC GAAP as follows:

$$\text{Capital Adequacy Ratio} = \frac{\text{Capital} - \text{Deductions from capital}}{\text{Risk-weighted assets} + (12.5 \times \text{capital charge for market risk})} \times 100\%$$

$$\text{Core Capital Adequacy Ratio} = \frac{\text{Core capital} - \text{Deductions from core capital}}{\text{Risk-weighted assets} + (12.5 \times \text{capital charge for market risk})} \times 100\%$$

Components of Capital

Total capital consists of core capital and supplementary capital. Supplementary capital may not exceed core capital.

Core capital includes the following items:

- paid-in capital;
- capital reserves;
- surplus reserves, including statutory and discretionary surplus reserves and the statutory public welfare fund;
- retained earnings; and
- minority interests.

Supplementary capital includes the following:

- up to 70% of the revaluation reserve;
- the general allowances for impairment losses under the CBRC's requirements (see "— Loan Classification, Allowances and Write-offs — Loan Classification and Allowances");
- preference shares;
- qualifying bonds convertible into common shares; and
- qualifying subordinated debt with a maturity exceeding 5 years, not exceeding 50% of core capital.

Deductions from total capital consist of the following:

- goodwill;
- 100% of equity investments in non-consolidated financial institutions; and
- 100% of capital investments in real estate not used for the bank's own operations or equity investments in non-financial institutions.

Deductions from core capital consist of the following:

- goodwill;
- 50% of equity investments in non-consolidated financial institutions; and
- 50% of capital investments in real estate not used for the bank's own operations or equity investments in non-financial institutions.

Risk-weighted Assets

The guidelines provide for the calculation of risk-weighted assets net of any allowance for impairment losses by multiplying on-balance sheet items by their corresponding risk weighting. Off-balance sheet items, including foreign exchange contracts, interest rate contracts and other derivative contracts, are first converted to balance sheet credit-equivalent amounts by multiplying the nominal principal amount by a credit conversion factor. In addition, loans secured by certain types of pledges or guarantees are allocated the risk weighting of the pledges or guarantors. Partially pledged or guaranteed loans receive such lower risk-weighting only on the portion of the loan that is pledged or guaranteed. The following table sets forth risk weightings for different assets.

Risk Weighting	Assets
0%	• Cash
	• Gold
	• Claims on PRC incorporated commercial banks with an original maturity of four months or less
	• Claims on the PRC central government or deposits at the PBOC
	• Claims on the PBOC
	• Claims on PRC policy banks
	• Bonds issued by PRC financial asset management companies for the purpose of acquiring non-performing loans from state-owned banks
	• Claims on non-PRC central governments or central banks in countries or regions where the sovereign or region is rated AA– or above[1]
	• Claims on multilateral development banks
20%	• Claims on PRC incorporated commercial banks with an original maturity of more than four months
	• Claims on non-PRC commercial banks and securities companies incorporated in other countries or regions where the sovereign or region is rated AA– or above[1]
50%	• Residential mortgages
	• Claims on PRC public-sector entities owned by the central government
	• Claims on non-PRC public-sector entities owned by governments of countries or regions where the sovereign or region is rated AA– or above[1]
100%	• All other assets

(1) These ratings refer to credit ratings of Standard & Poor's or equivalent rating agencies.

Capital Charge for Market Risk

Since the first quarter of 2005, domestic banks with trading books greater than the lower of 10% of on- and off-balance sheet assets in aggregate and RMB 8.5 billion are required to take into consideration market risk arising from trading activities when determining capital adequacy. Market risk is the aggregated risk charge applied to the balance of each trading security where the risk charge is determined based on the type of the security and the counterparty and the remaining maturity of the security. The value of securities in the trading book must be marked to market. If the market risk capital charge is applicable, capital must be applied against the sum of risk-weighted assets and market risk to determine capital adequacy.

Issuance of Subordinated Debt and Subordinated Bonds

Since November 2003, PRC commercial banks have been permitted to issue fixed-term debt for which the repayment of the principal and interest is subordinated to the bank's other liabilities but is senior to the bank's equity capital. A PRC commercial bank may include such fixed-term subordinated debt in the bank's supplementary capital. To qualify for inclusion in the bank's supplementary capital, the subordinated debt must have a minimum term of five years and the proceeds must not be used to offset a bank's operating losses. Subordinated debt can be issued only through private placements to certain legal person institutions. Moreover, subordinated debt cannot be issued to other commercial banks. The issuance of subordinated debt by a PRC commercial bank is subject to the approval of the CBRC.

Since June 2004, PRC commercial banks have been permitted to issue bonds which are subordinated to the bank's other liabilities but are senior to the bank's equity capital. A PRC commercial bank may, upon approval by the CBRC, include such subordinated bonds in the bank's supplementary capital. Subordinated bonds can be issued either in a public offering in the inter-bank bond market or in a private placement. A PRC commercial bank may not hold an aggregate amount of subordinated bonds issued by other banks in excess of 20% of its core capital. The issuance of subordinated bonds by a commercial bank is subject to the approval of the CBRC. The PBOC regulates the issuance and trading of subordinated bonds in the inter-bank bond market.

CBRC Supervision of Capital Adequacy

The CBRC reviews and evaluates banks' capital adequacy through both on-site examination and off-site surveillance. Commercial banks are required to report to the regulators their unconsolidated capital adequacy ratios on a quarterly basis and their consolidated capital adequacy ratios on a semi-annual basis. Commercial banks are classified into three categories based on their capital adequacy as follows.

Category	Capital adequacy ratio		Core capital adequacy ratio
Adequately capitalized banks	no less than 8%	and	no less than 4%
Undercapitalized banks	less than 8%	or	less than 4%
Significantly undercapitalized banks	less than 4%	or	less than 2%

The actions the CBRC takes to enforce the capital adequacy requirements may vary based on the classification of a commercial bank. The CBRC may issue a supervisory notice letter to undercapitalized banks which includes corrective actions and a plan for implementing such actions. These actions may include:

- requiring the bank to submit and implement an acceptable capital restoration plan within two months;
- restricting asset growth or reducing risk assets;
- restricting the purchase of fixed assets;
- restricting dividends and other forms of distributions;
- suspending all businesses except low-risk activities; and
- suspending the establishment of new branches or restricting the launch of new services.

Significantly undercapitalized banks may be required to take further actions including the removal of senior management, transfer of control, restructuring of operations, or closure in accordance with relevant laws and regulations.

Basel Accords

The Basel Capital Accord, or Basel I, was introduced by the Basel Committee on Banking Supervision, or Basel Committee, in 1988. Basel I is a capital measurement system for banks that provides for the implementation of a credit risk measurement framework with a minimum capital standard of 8%. Since 1999, the Basel Committee has issued certain proposals for a New Capital Adequacy Framework, or Basel II, to replace Basel I. Basel II retains the key elements of Basel I, including the general requirement for banks to hold total capital equivalent to at least 8% of their risk-weighted assets, but seeks to improve the capital framework through the introduction of three new "pillars." Pillar 1 seeks to improve the capital framework's sensitivity to the risk of credit losses generally by aligning capital requirements more closely to the level of credit risk presented by a bank's borrowers, introducing three different options for measuring credit risk based on external or internal credit risk ratings, and establishing an explicit capital charge for a bank's exposure to the risk of loss caused by operational failures. Pillar 2 introduces standards for the supervisory review of banks' internal assessments of their overall risks. Pillar 3 seeks to subject banks to increased market discipline by enhancing the degree of transparency in banks' public reporting. Basel II will be available for implementation in its entirety as of the end of 2007.

Basel I was not adopted in China. However, the CBRC has advised that the new capital guidelines it issued in March 2004 are based on Basel I and take into consideration certain aspects of Basel II.

Loan Classification, Allowances and Write-offs

Loan Classification and Allowances

Banks in China are currently required to classify loans under a five-category classification system based on the estimated likelihood of repayment of principal and interest. Prior to the adoption of the five-category classification currently in effect, loans were generally classified into four categories — pass, overdue, non-performing and loss — primarily based on the status of repayment and whether the borrower had become bankrupt. The five-category classification was initially promulgated by the PBOC in 1999 on a pilot basis and in 2002 banks were formally required to adopt it under the PBOC's Loan Classification Principles. The primary factors for evaluating the likelihood of repayment include the borrower's cash flow, financial condition, and credit history. The table below sets forth the five classification categories and their corresponding definitions.

Classification	Description[1]
Normal	Borrowers can honor the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
Special mention	Borrowers are able to service their loans currently, although repayment may be adversely affected by specific factors.
Substandard	Borrowers' abilities to service their loans are in question as they cannot rely entirely on normal business revenues to repay principal and interest. Losses may ensue even when collateral or guarantees are invoked.
Doubtful	Borrowers cannot repay principal and interest in full and significant losses will need to be recognized even when collateral or guarantees are invoked.
Loss	Only a small portion or no principal and interest can be recovered after taking all possible measures and exhausting all legal remedies.

(1) Banks may implement more detailed guidelines consistent with these definitions. See "Assets and Liabilities — Assets — Asset Quality of Our Loan Portfolio — Distribution of Loans by Loan Classification" for a description of the guidelines we have implemented.

Under the Provisioning Guidelines of the PBOC, banks in China are required to make provisions based on a reasonable estimate of the probability of loss on a prudent and timely basis. According to the loan classification guidelines, a loan classified as substandard, doubtful or loss is considered to be non-performing. Allowances for impairment losses consist of general allowances, specific allowances and special allowances. Banks are required to make provisions for impairment losses on a quarterly basis, and to have a general allowance of not less than 1% of the total loans outstanding as of December 31 of any year. The guidance on specific allowances is as follows: for substandard loans, 25%; for doubtful loans, 50%; and for loss loans, 100%. For substandard and doubtful loans, banks have the discretion to maintain their specific allowances for impairment losses at levels ranging from 20% below the guidance level to 20% above the guidance level, depending on the banks' own assessment of the risks relating to the relevant loans. Commercial banks may make special provisions on a quarterly basis in accordance with special risk factors (including risks in association with certain industries and countries), general loss rates and historical experience.

CBRC Supervision of Loan Classification and Allowances

Commercial banks are required to formulate detailed internal procedures that clearly define the responsibilities of each relevant department with respect to loan classification, approval, review and related matters. In addition, beginning in 2002, commercial banks have been required to submit quarterly and annual reports to the regulators on the classification of their loan portfolios and their allowances for loan losses. Based on its review of these reports, the CBRC may require commercial banks to explain significant changes in loan classification and loan loss allowance levels, or may carry out further inspections.

In 2003, the CBRC published a circular that reiterated the implementation of the PBOC's Loan Classification Principles and provided additional guidance on loan classification criteria. Pursuant to a joint announcement made by the PBOC and the CBRC in 2004, the CBRC supervises and examines commercial bank's implementation of PBOC and CBRC guidelines.

Loan Write-offs

Under the regulations issued by the PBOC and the MOF, banks are required to establish a strict review and approval process to write off loan losses. In order to be written off, a loan needs to meet the standards set by the MOF. Losses realized upon writing off loans are deductible for tax purposes, but such deduction is subject to the review and approval of the tax authorities as to whether the loans written off were compliant with the MOF's standards.

Corporate Governance and Risk Control

Corporate Governance

In accordance with the PRC Company Law, the Commercial Banking Law and other relevant regulations, joint-stock commercial banks are required to appoint at least two independent directors and establish a related party transactions committee, risk management committee, nomination and compensation committee and strategy committee of the board of directors. They are also required to establish a supervisory board with at least two external supervisors.

Internal Controls

Under the Internal Control Guidelines issued by the PBOC, commercial banks are required to establish internal controls to ensure effective risk management for their business activities. Commercial banks are also required to establish a risk management department which formulates and implements risk management policies and procedures. In addition, banks are required to establish an internal audit department that can independently supervise and evaluate all aspects of the banks' operations. Commercial banks are advised to have a minimum of 2% of their employees devoted to internal auditing. Internal controls should be regularly evaluated and, if necessary, improved. Since February 2005, the CBRC has been conducting periodical evaluations of the internal controls of commercial banks and has been taking regulatory action based on the results of its evaluations.

Since its inception, the CBRC has published a number of risk management guidelines and rules in an effort to improve risk management in China's commercial banks. The CBRC's guidelines and rules contain specific requirements for controlling various types of risk, including market risk, operational risk, and credit risk relating to real estate loans, loans to group borrowers and derivatives transactions. Commercial banks are required to identify, monitor, control and prevent risks and to enhance their internal controls, all in accordance with the CBRC's guidelines.

Operational Risk Management

In March 2005, the CBRC issued the Operational Risk Control Circular to further strengthen PRC commercial banks' ability to identify operational risk and the risk management and control of such risk. Under this circular, PRC commercial banks are required to establish internal policies and procedures specifically for the management and control of operational risk. A bank's internal audit department and business operation departments are required to conduct independent and ad hoc reviews and examinations of the bank's business operations from time to time. For business areas involving a greater degree of operational risk, ongoing reviews and examinations are required to be conducted. Moreover, a PRC commercial bank's head office is required to assess, from time to time, the implementation of and compliance with its internal policies and procedures on operational risk.

In addition, the circular sets forth detailed requirements for PRC commercial banks to follow, which include, among other things, establishing a system under which branch officers in charge of business operations are required to rotate and take compulsory leave on a regular basis; establishing a system to encourage full compliance with applicable regulations and internal rules and policies by all employees; improving the timely reconciliation of the account statements between commercial banks and their customers and those between operational departments and accounting departments within a bank; segregating persons in charge of account-keeping and persons in charge of account reconciliation; and establishing a system for the control and management of specimen signatures and banking transaction documents.

Market Risk Management

In December 2004, the CBRC promulgated the Guidelines on Market Risk Management to strengthen the market risk management of PRC commercial banks. These guidelines address, among other things, (1) the responsibilities of the board of directors and senior management of a bank in the supervision of market risk management, (2) policies and procedures for market risk management, (3) the detection, quantification, monitoring and control of market risk, and (4) responsibilities for internal controls and conducting external audits.

Under these guidelines, commercial banks are required to establish formal written policies and procedures to manage market risk. These policies and procedures must cover, among other things:

- permitted business activities, such as the trading of and investment in certain financial instruments;
- the level of market risk acceptable to the bank;
- the organizational structure for market risk management;
- a set of procedures for the detection, quantification, monitoring and control of market risk; and
- an information system for market risk management.

Disclosure Requirements

Under the Tentative Administrative Measures on Information Disclosure, commercial banks with total assets of RMB 1.0 billion or more or deposits of RMB 500 million or more are required to publish financial statements audited by qualified accounting firms in their annual reports. In addition, they are required to disclose information relating to the bank's risk management function, corporate governance, ten largest shareholders, related party transactions and other significant information relating to the bank during the relevant fiscal year. The annual reports are required to be published within four months of the end of each fiscal year.

Transactions with Related Parties

In accordance with the Administrative Measures on Connected Transactions between Commercial Banks and Insiders or Shareholders, related parties include, among others, (i) shareholders holding 5% or more of the bank's outstanding shares; (ii) legal persons or other organizations under direct or indirect common control with the bank; (iii) such legal persons' or organizations' individual controlling shareholders, directors and executive officers; (iv) directors, management, loan officers and their respective close relatives, and organizations in which the above persons have investments or serve as executive officers; and (v) other individuals, legal persons or other organizations that have direct, indirect or joint control over the commercial banks or that may exert significant influence over them. Transactions with related parties include, among other transactions, credit extensions, asset transfers, and the provision of services, and such transactions are required to be reported to the CBRC and published in their annual reports, if required. Commercial banks are required to adopt appropriate policies and procedures to manage related party transactions and to establish a related party transaction committee of the board of directors to supervise the implementation of, and compliance with, such policies and procedures and to examine proposed related party transactions.

Transactions with related parties are subject to limitations. For example, when the amount of any single related party transaction represents more than 1% of the bank's regulatory capital, or any single related party transaction will cause the total outstanding value of transactions with that related party to represent more than 5% of the bank's regulatory capital, the transaction must be examined by the related party transaction control committee of the commercial bank and submitted to the board of directors for approval. It must also be reported to the supervisory board of the bank and the CBRC within ten business days after such board approval. In addition, commercial banks may not grant unsecured loans to related parties or extend credit secured by the bank's own equity. They may not provide security for the financing activities of related parties, unless such related parties provide adequate security in the form of deposit certificates and treasury bonds. The credit facilities granted to a single related party may not exceed 10% of the commercial bank's regulatory capital. The credit facilities granted to all affiliates of a related party may not exceed 15% of the bank's regulatory capital. The aggregate amount of credit facilities granted to all related parties may not exceed 50% of the bank's regulatory capital. We were in compliance with these related party credit concentration limits in the periods presented in this prospectus.

Risk Rating System

Since our establishment as a joint-stock commercial bank in September 2004, we have been subject to evaluation by the CBRC based on a provisional risk rating system. Under this system, capital adequacy, asset quality, management quality, profitability, liquidity and exposure to market risk of joint-stock commercial banks are evaluated and scored by the CBRC on a continuous basis. Each bank is classified into one of five risk rating categories. The CBRC determines its supervision activities, including the frequency and scope of its on-site inspections, with respect to that bank based on its risk rating category. The risk rating also constitutes a basis for the CBRC's evaluation of the bank's applications for new business permits and the qualifications of its senior management. These risk ratings are not publicly available.

Restrictions on Equity Investments in Banks

Any natural or legal person intending to acquire 5% or more of the total equity interest of a commercial bank is required to obtain the prior approval of the CBRC. If any existing shareholder of a commercial bank increases its shareholding in excess of the 5% threshold without obtaining the CBRC's prior approval, that shareholder will be subject to CBRC sanctions, which include, among others, rescission of the acquisition and disgorgement of profits, if any. Furthermore, the bank and the relevant shareholder may also be subject to fines imposed by the CBRC for not obtaining the prior approval from the CBRC.

Under the Administrative Measures on Equity Investments of Overseas Financial Institutions in Domestic Financial Institutions, certain foreign financial institutions may make equity investments in domestic commercial banks. However, no single foreign financial institution may own 20% or more of the equity of such a bank. In addition, if foreign investment in the aggregate exceeds 25% of the total equity interest in a non-listed domestic commercial bank, such bank will be regulated as a foreign-invested commercial bank. A listed domestic commercial bank will continue to be regulated as a domestic bank even if foreign investment in the aggregate exceeds 25% of its total equity interest.

Our articles of association also impose certain additional requirements on the shareholders of our bank. For example, any natural or legal person intending to acquire 5% or more of our total equity interest is required to obtain the prior approval of the CBRC. In addition, if a shareholder holds 5% or more of our bank's outstanding share capital without receiving the prior approval of the CBRC, then until that shareholder receives the approval, certain rights with respect to those shares in excess of 5% will be restricted. The restrictions on the shares in excess of 5% include (i) no voting rights in shareholders' meetings, including any voting by class; and (ii) no right to nominate a director or a supervisor of our bank. However, the shareholder continues to enjoy dividend rights and liquidation rights with respect to those shares in excess of 5%. If the CBRC does not approve the holding of those shares in excess of 5%, the shareholder must dispose of such shares within the period of time specified by the CBRC.

Under the PRC Company Law and PBOC rules and regulations, a joint stock commercial bank may not accept its own shares as collateral. Moreover, there are legal limitations on the ability of shareholders in a joint stock commercial bank to pledge to any other lender their shares in the bank. According to the PBOC's Guidelines on Corporate Governance of Joint Stock Commercial Banks, any shareholder of a joint stock commercial bank must give prior notice to the board of directors of the bank if it wishes to pledge its shares as collateral. Under our articles of association, which have been approved by the CBRC, this restriction applies only to those shareholders that hold 5% or more of our shares. We have been advised by our PRC legal counsel, Commerce & Finance Law Offices, that this provision of our articles of association is legal and valid under PRC law.

Anti-money Laundering Regulation

Pursuant to the PBOC's Anti-money Laundering Regulations, commercial banks in China are required to establish an internal anti-money laundering procedure and file it with the PBOC. Commercial banks are also required to either establish an independent anti-money laundering department or designate a relevant department, in either case staffed with qualified personnel, to implement their anti-money laundering procedure. In addition, commercial banks are required to establish a system to record the identities of all customers and their respective deposits, settlement and other transactions with the bank. Upon the detection of any suspicious transactions or transactions involving large amounts, commercial banks are required to report the transactions to the PBOC or the SAFE, as applicable. Where necessary and pursuant to appropriate judicial proceedings, commercial banks are required to cooperate with government authorities in preventing money laundering activities and in freezing assets. The PBOC supervises commercial banks' anti-money laundering activities and imposes penalties on commercial banks that violate the PBOC's rules.

Regulation of Foreign-invested Commercial Banks Operating in China

Currently, foreign financial institutions may establish branches, joint venture banks or wholly-owned banks in China, subject to minimum capital and asset value requirements. By December 2006, any existing non-prudential measures restricting the geographic presence, customer base and operational licenses of foreign banks operating in China, including restrictions on establishing new branches, are required to be eliminated under China's WTO commitments.

Currently, foreign-invested commercial banks are permitted to engage in taking foreign currency-denominated deposits, making foreign currency-denominated loans, accepting and discounting financial instruments, dealing in government bonds, financial institution bonds and certain other approved activities. Foreign-invested commercial banks, upon approval, may provide RMB-denominated banking services to corporate customers and non-Chinese nationals in Shanghai, Shenzhen, Tianjin, Dalian, Guangzhou, Zhuhai, Qingdao, Nanjing, Wuhan, Jinan, Fuzhou, Chengdu, Chongqing, Beijing, Kunming, Xiamen, Shenyang and Xi'an. Restrictions on providing such services in Shantou and Ningbo are expected to be lifted by December 2005 and all geographical restrictions are expected to be removed by December 2006. In addition, foreign-invested commercial banks are expected to be permitted to provide RMB-denominated banking services to Chinese nationals by December 2006.

HONG KONG FINANCIAL DISCLOSURE REQUIREMENTS

Pursuant to Rule 4.10 of the Hong Kong Listing Rules, the financial information to be disclosed in our Accountants' Report must be in accordance with best practice, which is at least that required to be disclosed in respect of specific matters in the accounts of a company under the Hong Kong Companies Ordinance, IFRS and guidelines issued by the Hong Kong Monetary Authority, or HKMA, namely "Financial Disclosure by Locally Incorporated Authorised Institutions" and "New Hong Kong Accounting Standards: Impact on Interim Financial Disclosure," or the Guidelines.

We are currently unable to provide certain disclosures described below as required by the Guidelines as such information is currently not available. We believe that the financial disclosures which we are currently unable to provide are immaterial to potential investors under the Global Offering. However, we are endeavouring to collect the relevant information so that we will be in a position to provide such required disclosures under the Guidelines within a reasonable time frame in the future, as outlined below.

- The Guidelines require separate disclosure of the movements in the allowance for loan impairment losses for individually assessed loans and for collectively assessed loans. We did not break down the movements in the allowance for loan impairment losses into allowances for individually assessed loans and collectively assessed loans, and, in lieu of that, we disclosed the movements on an aggregate basis in Note 17(b) to the consolidated financial statements included in the Accountants' Report in Appendix I to this prospectus. We expect to be able to make such disclosure by December 31, 2006.
- The Guidelines require separate disclosure of the amount of new provisions charged to the income statement and the amount of provisions released back to the income statement in the movement of allowance for loan impairment losses. We did not segregate the amount of new provisions from the amount of provisions released back, and, in lieu of that, we disclosed these two amounts on a net basis in Note 17(b) to the consolidated financial statements included in the Accountants' Report in Appendix I of this prospectus. We expect to be able to make such disclosure by December 31, 2006. However, in "Assets and Liabilities" below, we have disclosed the separate amounts of provisions and write-backs attributable to our corporate loans and discounted bills.

REGULATION AND SUPERVISION OF OUR HONG KONG OPERATIONS AND OVERSEAS BRANCHES

Our branch in Hong Kong and our subsidiary bank, Jian Sing Bank Limited, are subject to the regulation of the HKMA. Our overseas branches in Frankfurt, Johannesburg, Singapore and Seoul are subject to the regulation of the German Bundesanstalt für Finanzdienstleistungsaufsicht, the South African Reserve Bank, the Monetary Authority of Singapore and the Financial Supervisory Commission of the Republic of Korea, respectively. We have been duly licensed to operate in each of these jurisdictions by the respective bank regulatory authorities.

Our operations in Tokyo are subject to the regulation of the Financial Services Agency of Japan. As a result of our separation, our Tokyo branch has temporarily suspended operations while maintaining its previous assets and staff, in accordance with applicable Japanese law. We have applied for a new banking license for our Tokyo branch.