The following discussion and analysis should be read in conjunction with the Accountants' Report in Appendix I, the unaudited supplementary financial information in Appendix II and the selected financial data, in each case together with the accompanying notes, included elsewhere in this prospectus. The financial information have been prepared in accordance with IFRS. The capital adequacy ratios discussed in this section are calculated in accordance with applicable CBRC guidelines and are based on PRC GAAP. The capital adequacy ratios are not part of the Accountants' Report and have not been audited.

FINANCIAL IMPACT OF OUR RESTRUCTURING

We initiated a restructuring in April 2005 that has had and is expected to have a significant impact on our results of operations and financial condition. For a description of our financial restructuring, see "Our Restructuring and Operational Reform—Financial Restructuring." The table below sets forth the impact of our financial restructuring on our shareholders' equity in 2005.

	Amount
	(in millions of RMB)
Huijin capital contribution	124,148
Equity contribution from the disposal of non-performing loans and impaired assets	567,558
Injection of land use rights	19,906
Surplus on revaluation of property and equipment	22,697
Capital adjustment	(8,028)
Total	**726,281**

As part of our financial restructuring, the MOF retained RMB124.0 billion in our then existing capital.

On April 22, 2005, we received a capital contribution of US$15.0 billion in cash from Huijin.

On May 27, 2005, we disposed of non-performing loans classified under the loss category in an aggregate amount of RMB176.0 billion and other impaired assets in an aggregate amount of RMB70.0 billion at book value, before allowance for impairment losses, to the MOF on a non-recourse basis. The MOF designated Huarong to hold these non-performing loans and assets. The proceeds from the disposal were accounted for as a receivable from the MOF. On June 27, 2005, we disposed of non-performing loans in an aggregate amount of RMB459.0 billion at book value, before allowance for impairment losses, to four asset management companies on a non-recourse basis. We used RMB430.5 billion of the proceeds we received from this disposal as consideration for a five-year bill issued by the PBOC. This bill is not transferable. However, we have received the PBOC's approval to treat the amount of this special PBOC bill as available for intraday settlement purposes. As a result of the disposals, the related allowance for impairment losses in an aggregate amount of RMB567.6 billion was released and credited to our capital reserve.

The PRC government contributed, as a capital injection, the land use rights to 10,994 parcels of land formerly allocated to us, with a fair value of approximately RMB19.9 billion at June 30, 2005.

The appraised value of our net assets at June 30, 2005, which was appraised in connection with our incorporation, amounted to RMB256.0 billion. On October 28, 2005, we were incorporated as a joint-stock limited company with a total registered capital of RMB248.0 billion. The difference of

RMB8.0 billion related to the government's grant of land use rights to us and was recorded as a payable to the MOF. Upon our incorporation, our registered capital was divided into 248.0 billion shares, with par value of RMB1.00 each, with the MOF and Huijin each receiving 50% of our shares immediately following our incorporation.

GENERAL FACTORS AFFECTING OUR RESULTS OF OPERATIONS

PRC Economic Condition

Our results of operations and financial condition are significantly affected by China's economic conditions and the economic measures undertaken by the PRC government. China has experienced rapid economic growth over the past two decades largely as a result of the PRC government's extensive economic reforms, which have focused on transforming China's centrally planned economy to a more market-based economy. The PRC's GDP grew at a compound annual growth rate of 13.6% between 2001 and 2005, according to the National Bureau of Statistics of China. During the same period, fixed asset investments increased at a compound annual growth rate of 24.2%, according to the National Bureau of Statistics of China. The growth of China's economy has led to increased corporate activities. China's economic growth has also led to significant increases in personal wealth, with per capita annual disposable income in urban areas increased at a compound annual growth rate of 11.2% from 2001 to 2005. Total Renminbi-denominated loans increased at a compound annual growth rate of 14.7% from 2001 to 2005, according to the PBOC. Beginning in the second half of 2003, the PRC government implemented a series of macroeconomic policies, which included raising the benchmark interest rates, increasing the PBOC statutory reserve deposits ratio applicable to banks, imposing commercial bank lending guidelines and using a number of measures to restrict loans to certain industries.

Interest Rate Environment

In recent years, as part of the overall reform of the banking system, the PBOC has implemented a series of initiatives designed to gradually liberalize interest rates and move towards a more market-based interest rate regime. Currently, interest rates on Renminbi-denominated loans may not be lower than the limits set based on the PBOC benchmark rates, but generally are not subject to maximum limits. Interest rates on Renminbi-denominated deposits may not exceed the PBOC benchmark rates. Adjustments to benchmark rates have significantly affected the average rates of our loans and deposits, which in turn have had an impact on our net interest income. The PBOC adjusted the overall benchmark rates for loans and deposits in February 2002 and October 2004, repealed the mandatory discount rate on personal property mortgage loans in March 2005 and adjusted the benchmark rates for loans in April 2006. In August 2006, the PBOC further adjusted the benchmark rates for both loans and deposits. See "Regulation and Supervision—PRC Regulation and Supervision—Pricing of Products and Services." In addition, we expect competition to continue to play an increasingly important role in determining interest rates as the PRC government continues its policy liberalizing interest rates on loans and deposits.

Development of China's Capital Markets

The regulation of the PRC's banking industry has been evolving and the PBOC and CBRC have taken initiatives to gradually allow the development and introduction of new fee- and commission-based banking services and new financial instruments banks may offer or in which they may invest. For example, the PBOC and CBRC have permitted the issuance of and caused the gradual development of a market for commercial paper. In addition, the discounted bills market has also grown rapidly in recent years. This has affected part of our lending business, as certain borrowers have replaced higher-cost loans with lower-cost discounted bills and commercial paper. On the other hand, these and other developments in the PRC's capital markets, such as the growth of investment and similar funds, have allowed us to expand our fee- and commission-based businesses, including wealth management services, such as the distribution of mutual funds and other investment products. In addition, the newly developed commercial paper market in the PRC has allowed us to develop a new source of underwriting fee income. The development of China's capital markets has also broadened the scope of our investment securities into a range of new products, such as corporate commercial paper and asset-backed securities, which generally offer higher yields than our more traditional investments, such as PBOC bills.

Competition

The market-oriented liberalization in recent years has led to an increased level of competition in the PRC banking industry. Other PRC commercial banks, including the state-owned commercial banks, joint-stock commercial banks, city commercial banks and foreign-invested financial institutions, compete with us in many of the same markets. This competition affects the pricing of our loans and deposits, as well as the pricing of and hence the income from our fee- and commission-based services. In the accession agreement relating to China's entry to the WTO, China has undertaken to eliminate all restrictions placed on the geographical presence, customer base and operational licences of foreign-invested banks in China by the end of 2006. The competition we face from foreign-invested financial institutions is likely to intensify significantly in the future. See "Banking Industry in China—Industry Trends."

INTERIM RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005

Our profit before tax increased by 9.7% to RMB38.8 billion for the six months ended June 30, 2006 from RMB35.4 billion for the six months ended June 30, 2005, primarily due to a 6.7% growth in our net interest income, which was primarily attributable to an increase in the average balance of our interest-earning assets partially offset by a 1.3% decrease in our non-interest income. The decrease in our non-interest income was primarily attributable to a 69.4% decrease in our other operating income, partially offset by a 61.6% increase in our net fee and commission income.

Net Interest Income

Net interest income was the largest component of our operating income, representing 89.2% of our operating income for the six months ended June 30, 2006.

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,	
	2005 (unaudited)	2006
	(in millions of RMB)	
Interest income[(1)]	112,283	129,038
Interest expense	(40,558)	(52,530)
Net interest income	**71,725**	**76,508**

(1) Includes interest income on impaired loans that represents the increase in the present value of such loans after impairment that is due to the passage of time. The amount of such interest income was RMB896 million and RMB5,657 million for the six months ended June 30, 2006 and 2005, respectively.

Our net interest income increased by 6.7% to RMB76.5 billion for the six months ended June 30, 2006 compared to RMB71.7 billion for the six months ended June 30, 2005. This increase reflected a greater increase in interest income in absolute terms than in interest expense for the same period. Interest income increased by RMB16.7 billion, or 14.9%, to RMB129.0 billion for the six months ended June 30, 2006 compared to RMB112.3 billion for the six months ended June 30, 2005. Interest expense increased by RMB11.9 billion, or 29.5%, to RMB52.5 billion for the six months ended June 30, 2006 compared to RMB40.6 billion for the six months ended June 30, 2005.

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

	For the six months ended June 30,					
	2005 (unaudited)			2006		
	Average balance	Interest	Average rate[1]	Average balance	Interest	Average rate[1]
	(in millions of RMB, except percentages)					
Assets						
Loans to customers, total	3,690,466	84,961	4.60%	3,390,593	89,570	5.28%
Investment securities	1,292,159	21,723	3.36	2,375,899	31,335	2.64
of which:						
Investment securities other than receivables[2]	894,163	15,142	3.39	1,301,438	19,156	2.94
Receivables	397,996	6,581	3.31	1,074,461	12,179	2.27
Due from central banks	504,326	4,331	1.72	524,697	4,508	1.72
Due from banks and other financial institutions[3]	119,555	1,268	2.12	221,678	3,625	3.27
Total interest-earning assets	**5,606,506**	**112,283**	**4.01**	**6,512,867**	**129,038**	**3.96**
Allowance for impairment losses	(355,826)			(88,147)		
Non-interest-earning assets[4]	238,025			260,719		
Total assets	**5,488,705**			**6,685,439**		
Liabilities						
Due to customers[5]	5,304,534	37,865	1.43	5,930,814	48,415	1.63
Due to banks and other financial institutions[6]	277,773	2,625	1.89	345,139	3,499	2.03
Debt issued[7]	3,245	68	4.19	38,073	616	3.24
Total interest-bearing liabilities	**5,585,552**	**40,558**	**1.45%**	**6,314,026**	**52,530**	**1.66%**
Non-interest-bearing liabilities[8]	138,107			166,351		
Total liabilities	**5,723,659**			**6,480,377**		
Net interest income		**71,725**			**76,508**	
Net interest spread[9]			**2.56%**			**2.30%**
Net interest margin[10]			**2.56%**			**2.35%**

(1) The average rates for the six months ended June 30, 2005 and 2006 were annualized figures.
(2) Consists of held-to-maturity debt securities, available-for-sale debt securities and debt securities at fair value through profit or loss.
(3) Includes amounts under reverse repurchase agreements.
(4) Consists of cash on hand, available-for-sale equity securities, property and equipment, deferred income tax assets and other assets.
(5) Includes certificates of deposit.
(6) Includes amounts due to a central bank and amounts under repurchase agreements.
(7) Consists of notes payable and subordinated bonds.
(8) Consists of income tax payable, deferred income tax liabilities and other liabilities.
(9) Calculated as the difference between the average yield on total interest-earning assets and the average cost on total interest-bearing liabilities.
(10) Calculated by dividing net interest income by the average balance of total interest-earning assets.

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

	For the six months ended June 30,		
	2006 vs. 2005		
	Increase/ (decrease) due to		Net increase[3]
	Volume[1]	Rate[2]	
	(in millions of RMB)		
Assets			
Loans to customers, total	(7,939)	12,548	4,609
Investment securities	13,694	(4,082)	9,612
of which:			
Investment securities other than receivables[4]	6,026	(2,012)	4,014
Receivables	7,668	(2,070)	5,598
Due from central banks	177	—	177
Due from banks and other financial institutions[5]	1,670	687	2,357
Change in interest income	**7,602**	**9,153**	**16,755**
Liabilities			
Due to customers[6]	5,245	5,305	10,550
Due to banks and other financial institutions[7]	680	194	874
Debt issued[8]	563	(15)	548
Change in interest expense	**6,488**	**5,484**	**11,972**
Change in net interest income	**1,114**	**3,669**	**4,783**

(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.
(4) Consists of held-to-maturity debt securities, available-for-sale debt securities and debt securities at fair value through profit or loss.
(5) Includes amounts under reverse repurchase agreements.
(6) Includes certificates of deposit.
(7) Includes amounts due to a central bank and amounts under repurchase agreements.
(8) Consists of notes payable and subordinated bonds.

Interest Income

Interest income increased by 14.9% to RMB129.0 billion for the six months ended June 30, 2006 compared to RMB112.3 billion for the six months ended June 30, 2005, primarily due to an increase in the average yield on our loans to customers, which was partially offset by a decrease in the average yield of our investment securities, and secondarily due to an increase in the average balance of our investment securities, which was partially offset by a decrease in the average balance of our loans to customers. The reasons for these changes are discussed in greater detail below.

The average yield on our interest-earning assets was 3.96% and 4.01% for the six months ended June 30, 2006 and 2005, respectively.

Interest Income from Loans to Customers

Interest income from loans to customers was the largest component of our interest income, representing 69.4% of our total interest income for the six months ended June 30, 2006.

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

	For the six months ended June 30,					
	2005 (unaudited)			2006		
	Average balance	Interest income	Average yield[(1)]	Average balance	Interest income	Average yield[(1)]
	(in millions of RMB, except percentages)					
Corporate loans	2,786,185	64,583	4.64%	2,333,962	66,408	5.69%
Discounted bills	311,694	4,817	3.09	431,338	5,244	2.43
Personal loans	494,373	14,005	5.67	519,749	15,024	5.78
Overseas operations	98,214	1,556	3.17	105,544	2,894	5.48
Total loans to customers	**3,690,466**	**84,961**	**4.60%**	**3,390,593**	**89,570**	**5.28%**

(1) The average yields for the six months ended June 30, 2005 and June 30, 2006 figures were annualized.

Interest income from loans to customers increased by 5.4% to RMB89.6 billion for the six months ended June 30, 2006 from RMB85.0 billion for the six months ended June 30, 2005, primarily due to an increase in the average yield from 4.60% to 5.28%, partially offset by a decrease in the average balance. The largest component of our interest income from loans to customers has been interest income from corporate loans, representing 74.1% of our total interest income from loans to customers for the six months ended June 30, 2006. Interest income from corporate loans as a percentage of interest income from total loans to customers decreased for the six months ended June 30, 2006 compared to the six months ended June 30, 2005, primarily due to a higher growth rate in interest income from overseas operations, personal loans and discounted bills.

Interest income from corporate loans increased by 2.8% to RMB66.4 billion for the six months ended June 30, 2006 from RMB64.6 billion for the six months ended June 30, 2005, primarily due to an increase in the average yield from 4.64% to 5.69%, partially offset by a decrease in the average balance. The average yield on corporate loans for the six months ended June 30, 2006 increased primarily as a result of the following factors: (i) the restructuring-related disposal in 2005, as the loans disposed of earned very little interest income; (ii) an increase in loans made to small-sized enterprises, which generally earn higher interest rates than loans to our other corporate customers, and (iii) the continued impact of the increase in PBOC benchmark rates in October 2004, as the interest rates on some loans were not reset until after June 30, 2005 in accordance with the terms of the loan agreements, and the increase in the PBOC benchmark rates in loans in April 2006. The average balance of corporate loans for the six months ended June 30, 2006 decreased due to the impact of the restructuring-related disposal.

Interest income from discounted bills increased by 8.9% to RMB5.2 billion for the six months ended June 30, 2006 from RMB4.8 billion for the six months ended June 30, 2005, primarily due to an increase in the average balance, partially offset by a decrease in the average yield from 3.09% to 2.43%. The average balance of discounted bills increased by 38.4% primarily due to increased market demand, particularly during the first quarter of 2006, for this product, which serves as a lower cost replacement for short-term corporate loans. The average yield on discounted bills decreased primarily due to continued decrease in market interest rates, reflecting increased market competition in an environment of excess liquidity.

Interest income from personal loans increased by 7.3% to RMB15.0 billion for the six months ended June 30, 2006 from RMB14.0 billion, due to a combination of an increase in the average balance and an increase in the average yield from 5.67% to 5.78%. The average balance of personal loans increased by 5.1%, primarily due to an increase in the average balance of personal property mortgage loans, and secondarily due to an increase in the average balance of personal consumption loans, primarily as a result of our increased personal business loans. The average yield on personal loans increased primarily due to a combination of an increase in the PBOC benchmark rates in April 2006 and the impact of the repeal of the PBOC's mandatory discount rate on personal property mortgage loans in March 2005.

Interest income from our loans to customers in our overseas operations consisted primarily of income from loans made by ICBC (Asia). Interest income from our loans to customers in our overseas operations increased by 86.0% to RMB2.9 billion for the six months ended June 30, 2006 from RMB1.6 billion for the six months ended June 30, 2005. This increase was primarily due to an increase in the average yield from 3.17% to 5.48%, reflecting an increase in the Hong Kong interest rate in the same period and, secondarily, due to an increase in the average balance in line with the expansion of our overseas operations, particularly in Hong Kong.

Interest Income from Investment Securities

Interest income from investment securities was the second largest component of our interest income, representing 24.3% of our interest income for the six months ended June 30, 2006. For the six months ended June 30, 2006, we earned interest income from both our investment securities, consisting primarily of our available-for-sale and held-to-maturity debt securities, and the receivables arising from our financial restructuring.

Interest income from total investment securities increased by 44.2% to RMB31.3 billion for the six months ended June 30, 2006 from RMB21.7 billion for the six months ended June 30, 2005, primarily due to a combination of an increase in the interest income from receivables and an increase in the interest income from investment securities other than receivables. The increase in the interest income from receivables was primarily due to an increase in the average balance, partially offset by a decrease in the average yield. The increase in the average balance reflected our receipt of the MOF receivable and special PBOC bill in May and June of 2005, respectively, in connection with our financial restructuring. The decrease in the average yield on our receivables was primarily due to the lower interest rate on the special PBOC bills and a decrease in the interest rate of the special government bonds, effective December 1, 2005, from 7.2% to 2.25%. The increase in interest income from investment securities other than receivables for the six months ended June 30, 2006 was primarily due to an increase in the average balance, partially offset by a decrease in the average yield on our available-for-sale and held-to-maturity debt securities. The increase in the average balance was primarily due to increased funding from our customer deposits and a consequent increase in our holdings of available-for-sale and held-to-maturity debt securities, particularly PBOC bills that were issued by the central bank as part of its measures to restrain available credit in China, and secondarily due to our increased holding of foreign currency-denominated debt securities. The increase in the average balance of foreign currency-denominated debt securities primarily reflected our use of the funds from the Huijin capital contribution to increase our foreign currency-denominated investments.

The decrease in the average yield was primarily due to the relatively lower interest rates on the PBOC bills.

Interest Income from Amounts Due from Central Banks

Our interest-earning balances with central banks consist primarily of statutory reserve deposits and surplus reserve deposits with the PBOC. Statutory reserve deposits represent the minimum level of cash deposits, calculated as a percentage of the balance of our general deposits from customers, that we are required to maintain at the PBOC. Surplus reserve deposits with the PBOC are the deposits in our reserve accounts at the PBOC in excess of our statutory reserve deposits, which we may use for settlement and other routine payment purposes.

Interest income from balances with central banks increased by 4.1% to RMB4.5 billion for the six months ended June 30, 2006 from RMB4.3 billion for the six months ended June 30, 2005. The increase in interest income from balances with central banks was primarily due to an increase in the average balance. The increase in the average balance was primarily due to an increase in our statutory reserve deposits, which reflected an increase in deposits from customers.

Interest Income from Amounts Due from Banks and Other Financial Institutions

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

Interest income on amounts due from banks and other financial institutions increased by 185.9% to RMB3.6 billion for the six months ended June 30, 2006 from RMB1.3 billion for the six months ended June 30, 2005, primarily due to a combination of an increase in the average yield from 2.12% to 3.27% and an increase in the average balance. The average balance increased by 85.4%, primarily due to our placement of a portion of the foreign currency denominated funds we received as part of the Huijin capital contribution in the inter-bank money market. The interest rates on these foreign currency-denominated inter-bank money market placements were LIBOR-based. The increase in the average yield on amounts due from banks and other financial institutions for the six months ended June 30, 2006 primarily reflected the increase in LIBOR in the same period and, to a lesser extent, an increase in the market rates on Renminbi-denominated inter-bank money market placements.

Interest Expense

Interest expense increased by 29.5% to RMB52.5 billion for the six months ended June 30, 2006 from RMB40.6 billion for the six months ended June 30, 2005, primarily due to an increase in the average balance, and, to a lesser extent, due to an increase in the average cost of our interest-bearing liabilities to 1.66% for the six months ended June 30, 2006 from 1.45% for the six months ended June 30, 2005.

Interest Expense on Customer Deposits

Customer deposits was our primary source of funding. Interest expense on customer deposits represented 92.2% of our total interest expense for the six months ended June 30, 2006. The average balance of each category of our customer deposits increased for the six months ended June 30, 2006 compared to June 30, 2005, reflecting the continued growth of the PRC economy and relatively limited alternative investment opportunities for our customers.

Interest expense on customer deposits increased by 27.9% to RMB48.4 billion for the six months ended June 30, 2006 from RMB37.9 billion for the six months ended June 30, 2005, primarily due to an increase in the average cost to 1.63% for the six months ended June 30, 2006 from 1.43% for the six months ended June 30, 2005, and, to a lesser extent, an increase in average balance.

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

	For the six months ended June 30,					
	2005 (unaudited)			2006		
	Average balance	Interest expense	Average cost(1)	Average balance	Interest expense	Average cost(1)
	(in millions of RMB, except percentages)					
Corporate deposits						
Time	577,698	5,830	2.02%	763,912	8,982	2.35%
Demand(2)	1,709,007	7,044	0.82	1,862,539	7,921	0.85
Subtotal	2,286,705	12,874	1.13	2,626,451	16,903	1.29
Personal deposits						
Time	2,032,159	21,057	2.07	2,207,707	25,994	2.35
Demand	907,478	3,286	0.72	1,017,063	3,666	0.72
Subtotal	2,939,637	24,343	1.66	3,224,770	29,660	1.84
Overseas operations(3)	78,192	648	1.66	79,593	1,852	4.65
Total deposits from customers	**5,304,534**	**37,865**	**1.43%**	**5,930,814**	**48,415**	**1.63%**

(1) The average costs for the six months ended June 30, 2005 and 2006 are annualized.
(2) Includes fiscal deposits and remittances.
(3) Includes certificates of deposit.

Interest expense on corporate deposits increased by 31.3% to RMB16.9 billion for the six months ended June 30, 2006 from RMB12.9 billion for the six months ended June 30, 2005, primarily due to an increase in the interest expense on corporate time deposits and secondarily due to an increase in the interest expense on corporate demand deposits.

Interest expense on corporate time deposits increased by 54.1% due to a combination of an increase in the average balance and an increase in the average cost from 2.02% to 2.35%. The increase in the average cost was primarily due to the following factors: the continued impact of the increase in PBOC benchmark interest rates in October 2004, the lengthening of the maturity profile of these deposits, reflecting customer preferences, and the increases in the interest rates on our foreign currency-denominated deposits.

Interest expense on corporate demand deposits increased by 12.5% primarily due to an increase in the average balance and, to a lesser extent, an increase in the average cost from 0.82% to 0.85%. The average cost on corporate demand deposits exceeded the PBOC benchmark demand deposit interest rate of 0.72% primarily because of the impact of "step-up" deposits offered to selected corporate customers, which pay a higher rate than the PBOC benchmark rate for demand deposits on balances exceeding a certain threshold amount, reflecting an increase in the PBOC benchmark rates for foreign currency deposits in December 2005.

Interest expense on personal deposits increased by 21.8% to RMB29.7 billion for the six months ended June 30, 2006 from RMB24.3 billion for the six months ended June 30, 2005, primarily due to an increase in the interest expense on personal time deposits.

Interest expense on personal time deposits increased by 23.4% due to a combination of an increase in the average balance and an increase in the average cost from 2.07% to 2.35%. The average cost on personal time deposits increased primarily due to a combination of the continued impact of the increase in PBOC benchmark interest rates in October 2004 on our personal time deposits, the lengthening of the maturity profile of these deposits, reflecting customer preferences and the increases in the interest rates on our foreign currency-denominated personal deposits.

Interest expense on personal demand deposits increased by 11.6% due to an increase in the average balance.

Interest expense on deposits in our overseas operations consisted of interest expense paid on our Hong Kong dollar-denominated deposits and U.S. dollar-denominated deposits. Interest expense on deposits in our overseas operations increased to RMB1.9 billion for the six months ended June 30, 2006 from RMB648 million for the six months ended June 30, 2005, primarily due to an increase in the average cost from 1.66% to 4.65%, which primarily reflected increases in Hong Kong interest rates, and secondarily due to an increase in the average balance, primarily reflecting the launch of a number of new deposit products, particularly structured deposits.

Interest Expense on Amounts Due to Banks and Other Financial Institutions

Interest expense on amounts due to banks and other financial institutions increased by 33.3% to RMB3.5 billion for the six months ended June 30, 2006 from RMB2.6 billion for the six months ended June 30, 2005 due to a combination of an increase in the average cost from 1.89% to 2.03% and an increase in average balance. The increase in the average cost primarily due to increases in the average cost of foreign currency-denominated inter-bank deposits, reflecting the continued increases in LIBOR. The average balance increased by 24.3% to RMB345.1 billion for the six months ended June 30, 2006 from RMB277.8 billion for the six months ended June 30, 2005, primarily due to an increase in Renminbi-denominated inter-bank deposits received from securities firms in our securities clearing business, reflecting the resumption of equity securities offerings in the PRC securities offerings in the PRC.

Interest Expense on Debt Issued

Interest expense on debt issued increased to RMB616 million for the six months ended June 30, 2006 from RMB68 million for the six months ended June 30, 2005 primarily due to an increase in the average balance. The average balance increased to RMB38.1 billion for the six months ended June 30, 2006 due to our issuance of subordinated bonds in the second half of 2005 in an aggregate amount of RMB35 billion.

Net Interest Margin and Net Interest Spread

Net interest margin is the ratio of net interest income to the average balance of total interest-earning assets. Our net interest margin decreased to 2.35% for the six months ended June 30, 2006 compared to 2.56% for the six months ended June 30, 2005 because our net interest income increased at a lower rate than the average balance of interest-earning assets.

Net interest spread is the difference between the average yield on interest-earning assets and the average cost on interest-bearing liabilities. Our net interest spread decreased to 2.30% for the six months ended June 30, 2006 from 2.56% for the six months ended June 30, 2005 because the average yield on our interest-earning assets decreased by five basis points compared to an increase of 21 basis points in the average cost on our interest-bearing liabilities.

Non-interest Income

Non-interest income represented 10.8% of our operating income for the six months ended June 30, 2006. The following table sets forth, for the periods indicated, the principal components of our non-interest income.

	For the six months ended June 30,	
	2005 (unaudited)	**2006**
	(in millions of RMB)	
Fee and commission income	5,502	8,761
Fee and commission expenses	(635)	(895)
Net fee and commission income	4,867	7,866
Other operating income	4,500	1,376
Total	**9,367**	**9,242**

Our non-interest income decreased by 1.3% to RMB9.2 billion for the six months ended June 30, 2006 from RMB9.4 billion for the six months ended June 30, 2005, primarily due to a decrease in our other operating income, partially offset by an increase in our net fee and commission income. The decrease in other operating income was primarily attributable to a lower net gain from foreign currency dealing, whereas the increase in our net fee and commission income reflected our continued focus on diversifying our sources of income.

Net Fee and Commission Income

Net fee and commission income was the largest component of our non-interest income. Our net fee and commission income increased by 61.6% to RMB7.9 billion for the six months ended June 30, 2006 from RMB4.9 billion for the six months ended June 30, 2005. These increases reflected our expanding intermediary business as an important component of our business strategy. The following table sets forth, for the periods indicated, the principal components of our net fee and commission income.

	For the six months ended June 30,	
	2005 (unaudited)	2006
	(in millions of RMB)	
Fee and commission income		
Renminbi settlement and clearing	1,279	2,153
Bank card business	999	1,355
Investment banking	974	1,764
Wealth management	714	1,409
Agency services	454	599
Foreign currency intermediary business	376	493
Electronic banking services	200	335
Custody	127	143
Guarantees and commitments	126	238
Others	253	272
Gross fee and commission income	**5,502**	**8,761**
Fee and commission expenses	**(635)**	**(895)**
Net fee and commission income	**4,867**	**7,866**

Renminbi Settlement and Clearing

Renminbi settlement and clearing fee income consists primarily of fees earned on money transfer and other fees earned on settlement and clearing services, account and cash management services. Renminbi settlement and clearing fees increased by 68.3% to RMB2.2 billion for the six months ended June 30, 2006 from RMB1.3 billion for the six months ended June 30, 2005. The increase in Renminbi settlement and clearing fee income was primarily due to the introduction of service fees on personal deposit accounts with low balances starting in the second quarter of 2006. It also reflected increased settlement transaction volumes with our small- and medium-sized enterprise customers.

Bank Card Business

Bank card fee income consists primarily of annual fees on our debit and credit cards, transaction fees from merchants on the use of our bank cards and transaction fees charged for servicing cards issued by other banks. Bank card fee income increased by 35.6% to RMB1.4 billion for the six months ended June 30, 2006 from RMB999 million for the six months ended June 30, 2005. These increases were primarily due to increased annual fee income on our debit cards, reflecting an increase in the number of new cards issued, and secondarily due to increased merchant fees on our cards and transaction fees for servicing other banks' cards, reflecting an increase in the number of new bank cards issued and increased transaction volumes on our bank cards and ATM machines.

Investment Banking

Investment banking fee income consists primarily of fees earned on our financial consulting, corporate investment and finance advisory, mergers and acquisitions advisory, and syndicate arrangement services. Investment banking fee income increased by 81.1% to RMB1.8 billion for the six months ended June 30, 2006 from RMB974 million for the six months ended June 30, 2005. The increase in investment banking fee income was primarily due to increases in (i) fees from our corporate investment and finance advisory services, reflecting our increased efforts to develop this business, (ii) our financial advisory fees, primarily attributable to the impact of the launch of our new financial information advisory management information system at the end of 2005 and (iii) fees from our syndicate arrangement and underwriting services, reflecting increased business volumes.

Wealth Management

Wealth management fee income consists primarily of fees from the distribution of government bonds and other securities, third-party investment funds, and life and other insurance products. Income arising from our wealth management services increased by 97.3% to RMB1.4 billion for the six months ended June 30, 2006 from RMB714 million for the six months ended June 30, 2005. The increase was primarily due to increased transaction volumes in the distribution of life insurance products and mutual funds. The increase in fees from life insurance products reflected an increased market trend in the use by insurance companies of commercial banks as product distribution channels. The increase in fees from mutual funds reflected an increase in the issuance of mutual fund products in the first half of 2006, primarily attributable to the improved performance of China's equity market.

Agency Services

Agency service fee income consists primarily of fees earned on our corporate agency securities, corporate agency insurance, collection and disbursement services, including effecting transactions in securities for customers, payroll payment services, and the collection of utilities and telecommunications payments. Agency service fee income increased by 31.9% to RMB599 million for the six months ended June 30, 2006 from RMB454 million for the six months ended June 30, 2005. The increase in agency service fees was primarily due to increased transaction volumes in our agency securities and entrusted provident housing fund mortgage loan businesses.

Foreign Currency Intermediary Business

Foreign currency intermediary business fee income consists primarily of fees earned on our international settlement and customer foreign currency trading services. Foreign currency intermediary business fee income increased by 31.1% to RMB493 million for the six months ended June 30, 2006 from RMB376 million for the six months ended June 30, 2005. The increase in foreign currency intermediary business fees was primarily due to increased transaction volumes in the areas relating to trade finance, particularly the issuance of letters of credit and our increased focus on this business.

Electronic Banking Services

Income from our electronic banking services consists primarily of annual fees, agency fees, settlement fees and electronic commerce transaction fees. Income from our e-banking services increased by 67.5% to RMB335 million for the six months ended June 30, 2006 from RMB200 million for the six months ended June 30, 2005. These increases were primarily due to the additional services provided and the increase of fee rates.

Custody

Income from our custody services consists primarily of custody fees collected on the assets of investment funds, insurance companies, social security funds, and qualified foreign institutional investors, or QFIIs, that are under our custody. The custody fees are determined based on the net asset value of the assets under custody. Income from our asset custody services increased by 12.6% to RMB143 million for the six months ended June 30, 2006 from RMB127 million for the six months ended June 30, 2005. These increases were primarily attributable to an increase both in the value of assets under custody and the number of funds under custody, reflecting the improved performance of China's equity market in the first half of 2006.

Guarantees and Commitments

Income from our RMB- and foreign currency-denominated guarantee fees increased by 88.9% to RMB238 million for the six months ended June 30, 2006 from RMB126 million for the six months ended June 30, 2005. The increase in our guarantee fees was primarily due to an increase in the transaction volumes of Renminbi-denominated guarantees provided for PRC companies in connection with the issuance of their corporate bonds.

Fee and Commission Expenses

Fee and commission expenses consist primarily 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. Our fee and commission expenses increased by 40.9% to RMB895 million for the six months ended June 30, 2006 from RMB635 million for the six months ended June 30, 2005, primarily due to increased transaction volumes in our fee- and commission-based services.

Other Operating Income

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

	For the six months ended June 30,	
	2005 (unaudited)	2006
	(in millions of RMB)	
Dividend income from unlisted investments	—	3
Gain from foreign exchange and foreign exchange products, net	1,681	218
Gain/(loss) on investments in securities, net	405	(341)
Gain from other dealing activities, net	662	410
Gain on disposal of property and equipment and other assets, net	707	166
Sundry banking income(1)	522	226
Others(2)	523	694
Total	**4,500**	**1,376**

(1) Consists primarily of dormant deposits, reversal of other payables, recoveries of litigation expenses, and bank card overdue fees.
(2) Consists of operating lease income, recoveries on other assets previously written off, and miscellaneous items.

Other operating income decreased by 69.4% to RMB1.4 billion for the six months ended June 30, 2006 compared to RMB4.5 billion for the six months ended June 30, 2005. The decrease in other operating income for the six months ended June 30, 2006 compared to 2005 was primarily due to a decrease in the net gain from foreign exchange and foreign exchange products and, to a lesser extent, a loss on investments in securities, a decrease in the net gain on the disposal of property and equipment and other assets, and a decrease in the net gain from other dealing activities.

Net Gain from Foreign Exchange and Foreign Exchange Products

For the six months ended June 30, 2006, the net gain from foreign exchange and foreign exchange products consisted primarily of net realized and unrealized gains or losses on our foreign currency option contract in the notional amount of US$12 billion that we entered into with Huijin to manage our foreign currency exposures resulting from the Huijin capital contribution and other foreign currency dealing activities. Our net gain from foreign exchange and foreign exchange products decreased to RMB218 million for the six months ended June 30, 2006 compared to RMB1,681 million for the six months ended June 30, 2005, primarily due to an RMB0.7 billion translation loss for the six months ended June 30, 2006, which reflected primarily an increased magnitude of appreciation in the value of the Renminbi against the U.S. dollar in the same period. See "—Quantitative and Qualitative Analysis of Market Risk—Exchange Rate Risk."

Net Gain/(Loss) on Investments in Securities

The net gain/(loss) on investments in securities consists of net realized and unrealized gains or losses on our securities held for trading purposes or recognized at fair value through profit or loss, as well as net realized gains or losses on our investment portfolio (other than interest income), which consists of available-for-sale and held-to-maturity debt securities. We incurred a net loss on investments in securities of RMB341 million for the six months ended June 30, 2006 compared to a net gain of RMB405 million for the six months ended June 30, 2005. The decrease was primarily due to the decrease in the fair value of the debt securities held by us, which was attributable to the increased interest rates in the bond markets.

Net Gain Arising from Other Dealing Activities

The net gain arising from other dealing activities consists primarily of net realized and unrealized gains or losses arising from derivatives transactions. Our derivatives transactions primarily consist of transactions entered into with our customers and proprietary derivatives transactions entered into to manage some of our market risks. The net gain arising from other dealing activities decreased by 38.1% to RMB410 million for the six months ended June 30, 2006 from RMB662 million for the six months ended June 30, 2005, primarily due to a decreased volume in our derivatives transactions and an unrealized loss on proprietary derivatives transactions.

Net Gain on Disposal of Property and Equipment and Other Assets

The net gain on disposal of property and equipment and other assets arises primarily from our sales of properties and buildings that are no longer necessary to our continued operations. The amount of net gain we recognize in any period is primarily a function of the timing and volume of our disposals and has varied from year to year without following any particular trend.

Sundry Banking Income

Our sundry banking income consists primarily of income arising from dormant deposits, reversals of payables, which were payables that had been outstanding for a prolonged period of time, recoveries of litigation expenses, which were advances made for court costs in connection with litigation claims that were written off, and bank card overdue fees. Income from dormant corporate deposits relates to corporate deposits that are inactive for a prolonged period of time, which may be recognized as our income until such time as they are claimed. Our sundry banking income decreased by 56.7% to RMB226 million for the six months ended June 30, 2006 compared to RMB522 million for the six months ended June 30, 2005, primarily due to a combination of (i) decreased income arising from dormant deposits; and (ii) a decrease in the reversals of payables.

Operating Expenses

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

	For the six months ended June 30,	
	2005 (unaudited)	**2006**
	(in millions of RMB)	
General staff expenses[1]	10,071	14,685
Supplementary retirement benefits	2,987	389
Property and equipment expenses	6,517	7,253
Operating and administrative expenses	4,981	4,564
Business tax and surcharges	4,361	5,368
Expenses in relation to special government bond	3,060	—
Others	1,987	2,437
Total	**33,964**	**34,696**
Cost-to-income ratio[2]	41.9%	40.5%
Adjusted cost-to-income ratio[3]	34.0%	34.2%

(1) Includes directors' and supervisors' emoluments.
(2) Calculated by dividing total operating expenses by operating income.
(3) Calculated by dividing total operating expenses (less business tax and surcharges, and, in the case of the six months ended June 30, 2005, expenses in relation to special government bond) by operating income (in the case of the six months ended June 30, 2005, less interest income in relation to special government bond). See "—Critical Accounting Policies" and "—Interim Results of Operations for the Six Months Ended June 30, 2006 and 2005—Operating Expenses—Expenses in Relation to Special Government Bond."

Our operating expenses increased by 2.2% to RMB34.7 billion for the six months ended June 30, 2006 compared to RMB34.0 billion for the six months ended June 30, 2005. This was primarily due to an increase in general staff expenses, partially offset by a decrease in our supplementary retirement benefits.

General Staff Expenses

The following table sets forth, for the periods indicated, the components of our general staff expenses, which include directors' and supervisors' emoluments.

	For the six months ended June 30,	
	2005 (unaudited)	2006
	(in millions of RMB)	
Salaries and bonuses	6,490	9,704
Defined contribution plans	1,205	1,694
Other staff benefits[1]	2,376	3,287
Total	**10,071**	**14,685**

(1) Consists primarily of contributions to the provident housing fund, unemployment, medical, injury and maternity insurance, staff education fees, union fees and other staff benefits.

General staff expenses consist primarily of salaries and bonuses, social insurance contributions, pension scheme contributions, and housing and medical benefits and other staff welfare. General staff expenses increased by 45.8% for the six months ended June 30, 2006 compared to the six months ended June 30, 2005, primarily reflecting an increase in our salaries and bonuses and related contributions and benefits that took place in the second half of 2005.

Supplementary Retirement Benefits

We provide supplementary retirement benefits to certain employees who retired prior to June 30, 2005. These benefits are recognized as a liability. We have obtained the approval of the MOF and made a special provision in the amount of RMB29.2 billion with respect to the supplementary retirement benefits in connection with our financial restructuring in 2005. The amount of such liability is calculated based on actuarial assumptions of a number of variables including the discount rate, healthcare cost increase rate, average life expectancy of these retirees and other factors. The difference between the actual amount of these variables and the actuarial assumptions may result in variations in the amount of supplemental retirement benefits. We recognize year-on-year variations in the amount of supplemental retirement benefits as gains or losses in the year of occurrence. While we believe our current actuarial assumptions to be accurate, actual conditions may be different from these assumptions and the amount of gains or losses arising from our supplemental retirement benefits may be affected. The changes in our actuarial gains or losses for the six months ended June 30, 2006 compared to the six months ended June 30, 2005 were primarily due to the changes in the discount rates used in our actuarial assumptions.

Property and Equipment Expenses

The following table sets forth, for the periods indicated, the components of our property and equipment expenses.

	For the six months ended June 30,	
	2005 (unaudited)	2006
	(in millions of RMB)	
Depreciation	4,571	5,053
Operating lease expenses	792	882
Utility expenses	625	648
Repairs and maintenance charges	529	670
Total	**6,517**	**7,253**

Depreciation

We depreciate our properties and buildings, leasehold improvements, office equipment and computers and motor vehicles, whereas we do not recognize any depreciation expense on construction in progress. Our depreciation expenses increased by 10.5% to RMB5.1 billion for the six months ended June 30, 2006 compared to RMB4.6 billion for the six months ended June 30, 2005, primarily due to a re-valuation of our fixed assets at June 30, 2005 in connection with our financial restructuring, which resulted in the creation of a depreciable revaluation surplus in the amount of RMB22.7 billion.

Operating and Administrative Expenses

Operating and administrative expenses consist primarily of expenses relating to printing, supplies, publication and stationery, electronic supplies, travel, promotions and advertising, and telecommunications and postage. Our operating and administrative expenses remained effectively stable for the six months ended June 30, 2006 compared to the six months ended June 30, 2005. Our travel and publication and stationery expenses decreased overall, reflecting our introduction of cost control measures on these items, such as centralized purchasing.

Business Tax and Surcharges

Business tax is levied at 5% primarily on our interest income from loans to customers and our gross fee and commission income. In addition, certain surcharges are levied at aggregate rates, depending on the locality, up to 10% of the amount of our business tax paid. The increase in our business tax and surcharges for the six months ended June 30, 2006 compared to the six months ended June 30, 2005 was in line with the increase in our interest income and non-interest income during the same period.

Expenses in Relation to Special Government Bond

For a description of the expenses in relation to the special government bond, see "Our Restructuring and Operational Reform—Financial Restructuring—Amendment to the Terms of a Special Government Bond issued by the MOF."

Other Operating Expenses

Other operating expenses consist primarily of expenses relating to amortization, miscellaneous taxes, supervision fees and losses arising from writing off certain impaired assets. Other operating expenses increased by 22.6% to RMB2.4 billion for the six months ended June 30, 2006 compared to RMB2.0 billion for the six months ended June 30, 2005. The increase in other operating expenses for the six months ended June 30, 2006 was primarily due to an increase in amortization of certain assets.

Provisions for Impairment Losses

Provisions for impairment losses consist primarily of provisions on loans and other assets. Provisions for impairment losses increased by 4.2% to RMB12.2 billion for the six months ended June 30, 2006 from RMB11.7 billion for the six months ended June 30, 2005. The following table sets forth, for the periods indicated, the principal components of our provisions for impairment losses.

	For the six months ended June 30,	
	2005 (unaudited)	2006
	(in millions of RMB)	
Loans to customers	11,558	11,645
Nostro accounts	—	4
Property and equipment	59	188
Repossessed assets	104	399
Investment securities	—	15
Placements with banks and other financial institutions	2	(33)
Total	**11,723**	**12,218**

The largest component of our provisions for impairment losses consists of provisions on loans to customers. Provisions for impairment losses on loans to customers increased by 0.8% to RMB11,645 million for the six months ended June 30, 2006 from RMB11,558 million for the six months ended June 30, 2005. For details on changes in our allowance for loan losses, including provisions for impairment losses, see "Assets and Liabilities—Assets—Asset Quality of Our Loan Portfolio—Allowance for Impairment Losses on Loans to Customers."

Our provisions for impairment losses on property and equipment primarily reflect provisions on our properties and buildings and our construction in progress. The provisions for impairment losses on property and equipment for the six months ended June 30, 2006 primarily reflected a decrease in recoverable amounts of certain properties.

Our provisions for impairment losses on repossessed assets reflect adverse changes in their prevailing conditions. These provisions increased for the six months ended June 30, 2006 compared to the six months ended June 30, 2005, primarily as a result of a decrease in recoverable amounts of certain repossessed assets.

Our provisions for impairment losses on investment securities reflect adverse changes in the prevailing conditions of our non-publicly traded equity holdings obtained through debt-to-equity swaps. These provisions increased for the six months ended June 30, 2006 compared to the six months ended June 30, 2005, primarily as a result of a decrease in the recoverable amount on our equity investment in a non-banking entity.

Our provision for impairment losses on placements with banks and other financial institutions primarily reflect provision for impairment losses on our placements with other PRC financial institutions, particularly securities firms. We recorded a reversal of provision on impairment losses on placements with banks and other financial institutions in the amount of RMB33 million for the six months ended June 30, 2006, which resulted from the recovery of placements with a securities firm and a city commercial bank in the PRC.

Income Tax Expense

The following table sets forth, for the period indicated, a reconciliation of our income tax expenses to the statutory PRC income tax rate of 33%.

	For the six months ended June 30,	
	2005 (unaudited)	**2006**
	(in millions of RMB)	
Profit before tax	35,405	38,841
Tax at the statutory income tax rate	11,684	12,818
Non-deductible expenses[1]		
Staff costs	1,723	2,792
Write-offs	70	1,256
Others	91	367
Subtotal	1,884	4,415
Non-taxable income		
Income arising from government bonds	(2,275)	(1,801)
Income arising from Huarong bonds	(1,162)	—
Others	(174)	(874)
Subtotal	(3,611)	(2,675)
Over provision in prior years	—	(1,359)
Total charge at effective tax rate	**9,957**	**13,199**

(1) Amounts mainly represent staff costs in excess of the statutory deductible threshold for income tax purpose, assets write-offs that were not allowed for tax deduction by tax authorities, and entertainment expenses, depreciation and amortization charges which are not tax deductible.

Our income tax expense increased by 32.6% to RMB13.2 billion for the six months ended June 30, 2006 compared to RMB10.0 billion for the six months ended June 30, 2005. Our income tax expense increased for the six months ended June 30, 2006 compared to the six months ended June 30, 2005 primarily due to an increase in our profit before tax. Our effective tax rate was 34.0% for the six months ended June 30, 2006 and 28.1% for the six months ended June 30, 2005. The increase in our effective tax rate for the six months ended June 30, 2006 compared to the six months ended June 30, 2005 was primarily due to an increase in non-deductible staff costs as a result of the increases in salaries and bonuses to our employees, and non-deductible loans and assets write-offs that were not allowed for tax deduction, and a decrease in non-taxable income associated with interest income from the Huarong bonds.

In connection with a disposal of non-performing assets to Huarong, we received a series of non-transferable ten-year bonds issued by Huarong with an aggregate face value of RMB313.0 billion in 2000-2001. See "Our Restructuring and Operational Reform—Our History." The interest income from the Huarong bonds were exempted from income taxes prior to July 1, 2005, on which date the taxation on this interest income was resumed pursuant to a notice issued by the MOF. Consequently, none of the interest income from these bonds were tax-exempted in the six months ended June 30, 2006.

We have applied to the MOF and SAT for exemptions from certain taxes arising from our financial restructuring and deductions with respect to certain employee compensation expenses. We cannot assure you that we will be granted the amount of exemptions or deductions applied for or at all.

Net Profit

As a result of all the foregoing factors, our net profit increased by 0.8% to RMB25.6 billion for the six months ended June 30, 2006 from RMB25.4 billion for the six months ended June 30, 2005.

RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003

Our profit before tax increased by 15.8% to RMB63.0 billion in 2005 from RMB54.4 billion in 2004, which increased by 60.6% from RMB33.9 billion in 2003, primarily due to (i) the growth in our net interest income at a compound annual growth rate of 11.9%, primarily attributable to the increase in the average balance of our interest-earning assets; (ii) the growth in our non-interest income at a compound annual growth rate of 33.7%, primarily attributable to the increase in our net fee and commission income, which grew at a compound annual growth rate of 36.9%, and, to a lesser extent, due to the growth in our other operating income, which grew at a compound annual growth rate of 29.5%; and (iii) the decrease in our net provisions for impairment losses.

Net Interest Income

Net interest income has been the largest component of our operating income, representing 89.5%, 91.1% and 92.4% of our operating income for the years ended December 31, 2005, 2004 and 2003, respectively.

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

	For the year ended December 31,		
	2003	**2004**	**2005**
	(in millions of RMB)		
Interest income[(1)]	189,069	204,889	240,202
Interest expense	(66,361)	(70,161)	(86,599)
Net interest income	**122,708**	**134,728**	**153,603**

(1) Includes interest income on impaired loans that represent the increase in the present value of such loans after impairment that is due to the passage of time. The amount of such interest income was RMB8,349 million, RMB9,876 million and RMB9,844 million for the years ended December 31, 2005, 2004 and 2003, respectively.

Our net interest income increased by 14.0% to RMB153.6 billion in 2005 compared to RMB134.7 billion in 2004, which increased by 9.8% in 2004 compared to RMB122.7 billion in 2003. These increases reflected a consistently higher increase in interest income in absolute terms than in interest expense during the three-year period. Interest income increased by 17.2% to RMB240.2 billion in 2005 compared to RMB204.9 billion in 2004, which increased by 8.4% in 2004 compared to RMB189.1 billion in 2003. Interest expense increased by 23.4% to RMB86.6 billion in 2005 compared to RMB70.2 billion in 2004, which increased by 5.7% in 2004 compared to RMB66.4 billion in 2003.

The table below sets forth, for the periods indicated, the average balances of our assets and liabilities and the related interest income or expense and the average yields or costs. 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 ended December 31, 2005, 2004 and 2003.

	For the year ended December 31,								
	2003			2004			2005		
	Average balance	Interest	Average rate	Average balance	Interest	Average rate	Average balance[(1)]	Interest	Average rate
	(in millions of RMB, except percentages)								
Assets									
Loans to customers, total	3,217,010	147,354	4.58%	3,575,473	160,168	4.48%	3,429,852	175,285	5.11%
Investment securities	942,486	30,564	3.24	1,110,418	34,197	3.08	1,751,037	51,480	2.94
of which:									
Investment securities other than receivables[(2)]	544,490	17,402	3.20	712,422	21,035	2.95	1,005,027	30,650	3.05
Receivables	397,996	13,162	3.31	397,996	13,162	3.31	746,010	20,830	2.79
Due from central banks	390,706	7,523	1.93	451,005	8,286	1.84	534,063	8,967	1.68
Due from banks and other financial institutions[(3)]	194,629	3,628	1.86	138,864	2,238	1.61	177,813	4,470	2.51
Total interest-earning assets	**4,744,831**	**189,069**	**3.98**	**5,275,760**	**204,889**	**3.88**	**5,892,765**	**240,202**	**4.08**
Allowance for impairment losses	(670,539)			(648,214)			(357,696)		
Non-interest-earning assets[(4)]	231,413			231,736			236,478		
Total assets	**4,305,705**			**4,859,282**			**5,771,547**		
Liabilities									
Due to customers[(5)]	4,435,407	60,423	1.36	4,968,326	65,821	1.32	5,465,941	80,753	1.48
Due to banks and other financial institutions[(6)]	347,101	5,938	1.71	269,671	4,300	1.59	278,670	5,356	1.92
Debt issued[(7)]	—	—	—	970	40	4.12	14,360	490	3.41
Total interest-bearing liabilities	**4,782,508**	**66,361**	**1.39%**	**5,238,967**	**70,161**	**1.34%**	**5,758,971**	**86,599**	**1.50%**
Non-interest-bearing liabilities[(8)]	97,394			125,940			142,038		
Total liabilities	**4,879,902**			**5,364,907**			**5,901,009**		
Net interest income		**122,708**			**134,728**			**153,603**	
Net interest spread[(9)]			**2.59%**			**2.54%**			**2.58%**
Net interest margin[(10)]			**2.59%**			**2.55%**			**2.61%**

(1) The average balance of our loans to customers in 2005 includes RMB635.0 billion of non-performing loans disposed of in connection with our financial restructuring until the disposal dates of May 27 and June 27, 2005, as applicable.
(2) Consists of held-to-maturity debt securities, available-for-sale debt securities and debt securities at fair value through profit or loss.
(3) Includes amounts under reverse repurchase agreements.
(4) Consists of cash on hand, available-for-sale equity securities, property and equipment, deferred income tax assets and other assets.
(5) Includes certificates of deposit.
(6) Includes amounts due to a central bank and amounts under repurchase agreements.
(7) Consists of notes payable and subordinated bonds.
(8) Consists of income tax payable, deferred income tax liabilities and other liabilities.
(9) Calculated as the difference between the average yield on total interest-earning assets and the average cost on total interest-bearing liabilities.
(10) Calculated by dividing net interest income by the average balance of total interest-earning assets.

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

	For the year ended December 31,					
	2004 vs. 2003			2005 vs. 2004		
	Increase/ (decrease) due to		Net increase/	Increase/ (decrease) due to		
	Volume(1)	Rate(2)	(decrease)(3)	Volume(1)	Rate(2)	Net increase(3)
	(in millions of RMB)					
Assets						
Loans to customers, total	16,031	(3,217)	12,814	(7,408)	22,525	15,117
Investment securities	4,994	(1,361)	3,633	18,641	(1,358)	17,283
of which:						
Investment securities other than receivables(4)	4,994	(1,361)	3,633	8,903	712	9,615
Receivables	—	—	—	9,738	(2,070)	7,668
Due from central banks	1,115	(352)	763	1,403	(722)	681
Due from banks and other financial institutions(5)	(903)	(487)	(1,390)	982	1,250	2,232
Change in interest income	**21,237**	**(5,417)**	**15,820**	**13,618**	**21,695**	**35,313**
Liabilities						
Due to customers(6)	7,172	(1,774)	5,398	6,983	7,949	14,932
Due to banks and other financial institutions(7)	(1,221)	(417)	(1,638)	166	890	1,056
Debt issued(8)	40	—	40	457	(7)	450
Change in interest expense	**5,991**	**(2,191)**	**3,800**	**7,606**	**8,832**	**16,438**
Change in net interest income	**15,246**	**(3,226)**	**12,020**	**6,012**	**12,863**	**18,875**

(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.
(4) Consists of held-to-maturity debt securities, available-for-sale debt securities and debt securities at fair value through profit or loss.
(5) Includes amounts under reverse repurchase agreements.
(6) Includes certificates of deposit.
(7) Includes amounts due to a central bank and amounts under repurchase agreements.
(8) Consists of notes payable and subordinated bonds.

Interest Income

Interest income increased by 17.2% to RMB240.2 billion in 2005 from RMB204.9 billion in 2004, primarily due to an increase in the average yield on our interest-earning assets and secondarily due to an increase in the average balance. The increase in the average yield was almost entirely attributable to our loan portfolio, in particular our corporate loans. The increase in the average balance was primarily due to an increase in our investment securities. The reasons for these changes are discussed in greater detail below.

Interest income increased by 8.4% to RMB204.9 billion in 2004 from RMB189.1 billion in 2003, due to an increase in the average balance of our interest-earning assets, partially offset by a decrease in the average yield. The increase in the average balance was primarily due to our corporate loans and discounted bills. The decrease in the average yield was attributable primarily to our loans, investment securities and amounts due from banks and other financial institutions. The reasons for the changes are discussed in greater detail below.

The average yield on our interest-earning assets was 4.08%, 3.88% and 3.98% in 2005, 2004 and 2003, respectively.

Interest Income from Loans to Customers

Interest income from loans to customers has been the largest component of our interest income, representing 73.0%, 78.2% and 77.9% of our total interest income for the years ended December 31, 2005, 2004 and 2003, respectively.

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

	For the year ended December 31,								
	2003			2004			2005		
	Average balance	Interest income	Average yield	Average balance	Interest income	Average yield	Average balance[1]	Interest income	Average yield
	(in millions of RMB, except percentages)								
Corporate loans	2,635,259	121,034	4.59%	2,803,264	125,420	4.47%	2,505,521	133,199	5.32%
Discounted bills	161,999	5,724	3.53	230,417	7,959	3.45	339,123	9,044	2.67
Personal loans	351,362	18,466	5.26	454,533	24,242	5.33	498,851	29,060	5.83
Overseas operations	68,390	2,130	3.11	87,259	2,547	2.92	86,357	3,982	4.61
Total loans to customers	**3,217,010**	**147,354**	**4.58%**	**3,575,473**	**160,168**	**4.48%**	**3,429,852**	**175,285**	**5.11%**

(1) The average balance of our loans to customers in 2005 includes RMB635.0 billion of non-performing loans disposed of in connection with our financial restructuring until the disposal dates of May 27 and June 27, 2005, as applicable.

Interest income from loans to customers increased by 9.4% to RMB175.3 billion in 2005 from RMB160.2 billion in 2004, primarily due to an increase in the average yield from 4.48% to 5.11%, partially offset by a decrease in the average balance. Interest income from loans to customers increased by 8.7% to RMB160.2 billion in 2004 from RMB147.4 billion in 2003, primarily due to an increase in the average balance, partially offset by a decrease in the average yield from 4.58% to 4.48%.

The largest component of our interest income from loans to customers has been interest income from corporate loans, representing 76.0%, 78.3% and 82.1% of our total interest income from loans to customers for the years ended December 31, 2005, 2004 and 2003, respectively. Interest income from corporate loans, as a percentage of interest income from total loans to customers, decreased from 2003 through 2005, primarily due to a higher growth rate in interest income from personal loans and discounted bills.

2005 Compared to 2004. Interest income from corporate loans increased by 6.2% to RMB133.2 billion in 2005 from RMB125.4 billion in 2004, primarily due to an increase in the average yield from 4.47% to 5.32%, partially offset by a decrease in the average balance. The average yield on corporate loans in 2005 increased primarily as a result of the following factors: (i) the restructuring-related disposal, as the loans disposed of earned very little interest income; (ii) the increase in the PBOC benchmark rate in October 2004; and (iii) an increase in loans made to small-sized enterprises, which generally earn higher interest rates than loans to our other corporate customers. The average balance of corporate loans in 2005 decreased due to the impact of the restructuring-related disposal.

Interest income from discounted bills increased by 13.6% to RMB9.0 billion in 2005 from RMB8.0 billion in 2004, primarily due to an increase in the average balance, partially offset by a decrease in the average yield from 3.45% to 2.67%. The average balance of discounted bills increased by 47.2% primarily due to increased market demand for this product, which serves as a lower cost replacement for short-term corporate loans, and our increased marketing efforts. The average yield on discounted bills decreased primarily due to a decrease in the PBOC surplus reserve deposit interest rate, which serves as a benchmark rate for the discounted bill market.

Interest income from personal loans increased by 19.9% to RMB29.1 billion in 2005 from RMB24.2 billion in 2004, due to a combination of an increase in the average balance and an increase in the average yield from 5.33% to 5.83%. The average balance of personal loans increased by 9.8%, primarily due to an increase in the average balance of personal property mortgage loans, partially offset by a decrease in the average balance of personal consumption loans, particularly auto loans. The average yield on personal loans increased primarily due to an increase in the PBOC benchmark rates in October 2004 and, to a lesser extent, the repeal of the PBOC's mandatory discount rate on personal property mortgage loans in March 2005.

Interest income from our loans to customers in our overseas operations consisted primarily of income from loans made by ICBC (Asia). Interest income from our loans to customers in our overseas operations increased by 56.3% to RMB4.0 billion in 2005 from RMB2.5 billion in 2004. This increase was primarily due to an increase in the average yield from 2.92% to 4.61%, reflecting an increase in the Hong Kong interest rate in the same period, partially offset by a slight decrease in the average balance.

2004 Compared to 2003. Interest income from corporate loans increased by 3.6% to RMB125.4 billion in 2004 from RMB121.0 billion in 2003, primarily due to an increase in the average balance, partially offset by a decrease in the average yield from 4.59% to 4.47%. The average balance of corporate loans increased by 6.4% in 2004 from 2003, primarily due to an increase in medium- and long-term loans, particularly to the transportation and logistics, power generation and supplies, construction and mining industries, which was partially offset by a decrease in short-term working capital loans. The average yield on corporate loans decreased primarily due to increased competition, resulting in an increase in the amount of loans made at a discount to the benchmark rate.

Interest income from discounted bills increased by 39.0% to RMB8.0 billion in 2004 from RMB5.7 billion in 2003, primarily due to an increase in the average balance, partially offset by a decrease in the average yield from 3.53% to 3.45%. The average balance increased primarily due to increased market demand and our increased marketing efforts. The decrease in the average yield primarily due to a decrease in the PBOC surplus reserve deposit interest rate on December 21, 2003.

Interest income from personal loans increased by 31.3% to RMB24.2 billion in 2004 from RMB18.5 billion in 2003, primarily due to an increase in the average balance and, to a lesser extent, a slight increase in the average yield from 5.26% to 5.33%. The increase in the average balance was primarily due to an increase in the average balance of personal property mortgage loans, partially offset by a decrease in the average balance of personal consumption loans, particularly auto loans. The average yield increased primarily due to the increase in the PBOC benchmark rates on October 29, 2004.

Interest income from our loans to customers in our overseas operations increased by 19.6% to RMB2.5 billion in 2004 from RMB2.1 billion in 2003, primarily due to an increase in the average balance, partially offset by a decrease in the average yield from 3.11% to 2.92%, reflecting the continued impact of the decreases in Hong Kong interest rates in earlier periods.

Interest Income from Investment Securities

Interest income from investment securities has been the second largest component of our interest income, representing 21.4%, 16.7% and 16.2% of our interest income for the years ended December 31, 2005, 2004 and 2003, respectively. In 2005, we earned interest income from both our investment securities, consisting primarily of our available-for-sale and held-to-maturity debt securities, and the receivables arising from our financial restructuring.

Interest income from total investment securities increased by 50.5% to RMB51.5 billion in 2005 from RMB34.2 billion in 2004, primarily due to a combination of an increase in the interest income from investment securities other than receivables and an increase in the interest income from receivables. The increase in the interest income from investment securities other than receivables in 2005 was primarily due to an increase in the average balance and, to a lesser extent, an increase in the average yield on our available-for-sale and held-to-maturity debt securities. The increase in the average balance was primarily due to increased funding from our customer deposits and a consequent increase in our holdings of available-for-sale and held-to-maturity debt securities and secondarily due to our increased holding of foreign currency-denominated debt securities, primarily as a result of our increased foreign currency funding from the Huijin capital contribution. The increase in the average yield was primarily due to the higher interest rates on these foreign currency-denominated debt securities. The increase in the interest income from receivables was primarily due to an increase in the average balance, partially offset by a decrease in the average yield. The increase in the average balance reflected our receipt of the special PBOC bill and MOF receivable in connection with our financial restructuring. The average yield decreased primarily due to the impact of the relatively low-yielding special PBOC bill we acquired in connection with our financial restructuring, partially offset by the impact of the relatively high-yielding MOF receivable we obtained in connection with our financial restructuring.

Interest income from investment securities increased by 11.9% to RMB34.2 billion in 2004 from RMB30.6 billion in 2003, primarily due to an increase in the average balance, partially offset by a decrease in the average yield from 3.24% to 3.08%. The average balance increased by 17.8% in 2004 primarily due to increased funding from our customer deposits and a consequent increase in our holdings of available-for-sale and held-to-maturity debt securities. The average yield decreased primarily due to a combination of (i) a decrease in interest rates on our portfolio of debt securities, as securities issued in earlier years which earned higher interest rates matured and were replaced by securities issued in more recent years at lower interest rates, reflecting the general trend in market interest rates; and (ii) an increase in the proportion of our debt securities portfolio consisting of PBOC bills, which are generally shorter-term and earn lower interest rates than other debt securities.

Interest Income from Amounts Due from Central Banks

Our interest-earning balances with central banks consist primarily of statutory reserve deposits and surplus reserve deposits with the PBOC. Statutory reserve deposits represent the minimum level of cash deposits, calculated as a percentage of the balance of our general deposits from customers, that we are required to maintain at the PBOC. Surplus reserve deposits with the PBOC are the deposits in our reserve accounts at the PBOC in excess of our statutory reserve deposits, which we may use for settlement and other routine payment purposes.

Interest income from balances with central banks increased by 8.2% to RMB9.0 billion in 2005 from RMB8.3 billion in 2004, which increased by 10.1% from RMB7.5 billion in 2003. The increase in interest income from balances with central banks during this three-year period was primarily due to an increase in the average balance in each year, partially offset by a decrease in the average yield from 1.93% in 2003 to 1.84% in 2004 and 1.68% in 2005. The increase in the average balance in each year was primarily due to an increase in our statutory reserve deposits, which reflected both an increase in deposits from customers and the increase in the statutory reserve deposit ratio required by the PBOC, partially offset by a decrease in our surplus reserve deposits as a result of developments in the PRC inter-bank money market, which provided more avenues for placing our available cash, and our improved cash management, which reduced the amount of cash required for our settlement purposes. The decrease in the average yield during this three-year period was primarily due to reductions in the interest rate on surplus reserve deposits in December 2003 and March 2005.

Interest Income from Amounts Due from Banks and Other Financial Institutions

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

Interest income on amounts due from banks and other financial institutions increased by 99.7% to RMB4.5 billion in 2005 from RMB2.2 billion in 2004, primarily due to an increase in the average yield from 1.61% to 2.51% and secondarily due to an increase in the average balance. The average balance increased by 28.0%, primarily due to our placement of a portion of the foreign currency-denominated funds we received as part of the Huijin capital contribution in the inter-bank money market. The interest rates on these foreign currency-denominated inter-bank money market placements were LIBOR-based and the increase in the average yield in amounts due from banks and other financial institutions in 2005 primarily reflected the increase in LIBOR in the same period, which was partially offset by a decrease in the average yield on Renminbi-denominated inter-bank money market placements.

Interest income on amounts due from banks and other financial institutions decreased to RMB2.2 billion in 2004 from RMB3.6 billion in 2003, due to a combination of decrease in the average balance and a decrease in the average yield. The average balance decreased primarily because a lower proportion of our funding was allocated to Renminbi-denominated placements in the inter-bank money market when higher-yielding PBOC bills became available in 2004. The average yield decreased from 1.86% in 2003 to 1.61% in 2004, primarily due to (i) a decrease in the average balance of relatively high-yielding reverse purchase agreements as a percentage of total, (ii) a decrease in the average yield of reverse purchase agreements, and (iii) an increase in the average balance of relatively low-yielding foreign currency-denominated placement in the inter-bank money market as a percentage of total.

Interest Expense

Interest expense increased by 23.4% to RMB86.6 billion in 2005 from RMB70.2 billion in 2004, primarily due to an increase in the average cost from 1.34% to 1.50% and secondarily due to an increase in the average balance of our interest-bearing liabilities. Interest expense increased by 5.7% to RMB70.2 billion in 2004 from RMB66.4 billion in 2003, primarily due to an increase in the average balance, partially offset by a decrease in the average cost from 1.39% to 1.34%.

Interest Expense on Amounts Due to Customers

Customer deposits historically have been our primary source of funding. Interest expense on customer deposits represented 93.2%, 93.8% and 91.1% of our total interest expense for the years ended December 31, 2005, 2004 and 2003, respectively. The average balance in each category of our customer deposits increased generally in 2003-2005, reflecting continued growth of the PRC economy and relatively limited alternative investment opportunities for our customers.

Interest expense on customer deposits increased by 22.7% to RMB80.8 billion in 2005 from RMB65.8 billion in 2004, primarily due to an increase in the average cost from 1.32% to 1.48% and secondarily due to an increase in the average balance. Interest expense on customer deposits increased by 8.9% to RMB65.8 billion in 2004 from RMB60.4 billion in 2003, primarily due to an increase in the average balance, partially offset by a decrease in the average cost from 1.36% to 1.32%.

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

	For the year ended December 31,								
	2003			2004			2005		
	Average balance	Interest expense	Average cost	Average balance	Interest expense	Average cost	Average balance	Interest expense	Average cost
	(in millions of RMB, except percentages)								
Corporate deposits									
Time	430,438	8,568	1.99%	509,568	9,873	1.94%	639,564	13,542	2.12%
Demand(1)	1,505,586	12,495	0.83	1,671,562	13,850	0.83	1,780,003	14,988	0.84
Subtotal	1,936,024	21,063	1.09	2,181,130	23,723	1.09	2,419,567	28,530	1.18
Personal deposits									
Time	1,717,908	33,358	1.94	1,874,466	35,325	1.88	2,066,699	43,228	2.09
Demand	737,782	5,329	0.72	853,405	6,152	0.72	919,829	6,666	0.72
Subtotal	2,455,690	38,687	1.58	2,727,871	41,477	1.52	2,986,528	49,894	1.67
Overseas operations(2)	43,693	673	1.54	59,325	621	1.05	59,846	2,329	3.89
Total deposits from customers	**4,435,407**	**60,423**	**1.36%**	**4,968,326**	**65,821**	**1.32%**	**5,465,941**	**80,753**	**1.48%**

(1) Includes fiscal deposits and remittances.
(2) Includes certificates of deposit.

2005 Compared to 2004. Interest expense on corporate deposits increased by 20.3% to RMB28.5 billion in 2005 from RMB23.7 billion in 2004, primarily due to an increase in the interest expense on corporate time deposits and secondarily due to an increase in the interest expense on corporate demand deposits.

Interest expense on corporate time deposits increased due to a combination of an increase in the average balance and an increase in the average cost from 1.94% to 2.12%. The average cost on corporate time deposits increased primarily due to the continued impact of the increase in PBOC benchmark interest rates in October 2004.

Interest expense on corporate demand deposits increased by 8.2% primarily due to an increase in the average balance and to a lesser extent, a slight increase in the average cost from 0.83% to 0.84%. The average cost on corporate demand deposits exceeded the PBOC benchmark demand deposit interest rate of 0.72% primarily because of the impact of "step-up" deposits offered to selected corporate customers, which pay a higher rate than the PBOC benchmark rate for demand deposits on balances exceeding a certain threshold amount.

Interest expense on personal deposits increased by 20.3% to RMB49.9 billion in 2005 from RMB41.5 billion in 2004, primarily due to an increase in the interest expense on personal time deposits.

Interest expense on personal time deposits increased by 22.4% due to a combination of an increase in the average balance and an increase in the average cost from 1.88% to 2.09%. The average cost on personal time deposits increased primarily due to an increase in the PBOC benchmark rates in October 2004.

Interest expense on personal demand deposits increased by 8.4% due to an increase in the average balance.

Interest expense on deposits in our overseas operations consisted of interest expense paid on our Hong Kong dollar-denominated deposits and U.S. dollar-denominated deposits. Interest expense on deposits in our overseas operations increased to RMB2.3 billion in 2005 from RMB621 million in 2004, primarily due to an increase in the average cost from 1.05% to 3.89%, primarily reflecting increases in Hong Kong interest rates.

2004 Compared to 2003. Interest expense on corporate deposits increased by 12.6% to RMB23.7 billion in 2004 from RMB21.1 billion in 2003, due to a combination of an increase in the interest expense on corporate demand deposits and an increase in the interest expense on corporate time deposits.

Interest expense on corporate demand deposits increased by 10.8% due to an increase in the average balance.

Interest expense on corporate time deposits increased by 15.2% due to an increase in the average balance, partially offset by a decrease in the average cost from 1.99% to 1.94%. The average cost of corporate time deposits decreased primarily due to a shortening of the maturity profile of these deposits by our customers.

Interest expense on personal deposits increased by 7.2% to RMB41.5 billion in 2004 from RMB38.7 billion in 2003, due to a combination of an increase in the interest expense on personal time deposits and an increase in the interest expense on personal demand deposits.

Interest expense on personal time deposits increased due to an increase in the average balance, partially offset by a decrease in the average cost from 1.94% to 1.88%. The decrease in the average cost on personal time deposits primarily resulted from the replacement of time deposits made in earlier years, which bore higher interest rates, by time deposits at lower interest rates, reflecting the continued impact of decreases in the PBOC benchmark rates in earlier years.

Interest expense on personal demand deposits increased by 15.4% due to an increase in the average balance.

Interest expense on deposits in our overseas operations decreased by 7.7% to RMB621 million in 2004 from RMB673 million in 2003, primarily due to a decrease in the average cost from 1.54% to 1.05%, reflecting decreases in Hong Kong interest rates, partially offset by an increase in the average balance.

Interest Expense on Amounts Due to Banks and Other Financial Institutions

Interest expense on amounts due to banks and other financial institutions increased by 24.6% to RMB5.4 billion in 2005 from RMB4.3 billion in 2004 due to a combination of an increase in the average balance and an increase in the average cost from 1.59% to 1.92%. The average balance increased by 3.3% to RMB278.7 billion in 2005 from RMB269.7 billion in 2004 primarily due to an increase in Renminbi-denominated inter-bank deposits. The increase in the average cost was primarily due to the deregulation of interest rates payable on such deposits since March 17, 2005.

Interest expense on amounts due to banks and other financial institutions decreased by 27.6% to RMB4.3 billion in 2004 from RMB5.9 billion in 2003, primarily due to a decrease in the average balance and, to a lesser extent, a decrease in the average cost from 1.71% to 1.59%. The average balance decreased by 22.3% to RMB269.7 billion in 2004 from RMB347.1 billion in 2003 primarily due to a decrease in deposits from securities firms. The average cost decreased primarily due to the reduction of the PBOC's surplus reserve deposit interest rate, which serves as a reference for interest rates for inter-bank deposits, in December 2003.

Interest Expense on Debt Issued

Interest expense on debt issued increased to RMB490 million in 2005 from RMB40 million in 2004 primarily due to an increase in the average balance. The average balance increased to RMB14.4 billion in 2005 due to our issuance of subordinated bonds in the second half of 2005 in an aggregate amount of RMB35.0 billion.

We did not have any outstanding debt issued in 2003. Our debt issued in 2004 consisted of notes in an aggregate amount of US$400 million issued by ICBCA (C.I.) Limited, a subsidiary of ICBC (Asia) in September 2004.

Net Interest Margin and Net Interest Spread

Net interest margin is the ratio of net interest income to the average balance of total interest-earning assets. Our net interest margin increased to 2.61% in 2005 compared to 2.55% in 2004 because our net interest income increased at a higher rate than the average balance of interest-earning assets. Our net interest margin decreased to 2.55% in 2004 compared to 2.59% in 2003 because the average balance of interest-earning assets increased at a higher rate than our net interest income.

Net interest spread is the difference between the average yield on interest-earning assets and the average cost on interest-bearing liabilities. Our net interest spread increased to 2.58% in 2005 from 2.54% in 2004 because the average yield on our interest-earning assets increased by 20 basis points compared to an increase of 16 basis points in the average cost on our interest-bearing liabilities. Our net interest spread decreased to 2.54% in 2004 compared to 2.59% in 2003 because the average yield on our interest-earning assets decreased by 10 basis points, whereas the average cost on our interest-bearing liabilities decreased by 5 basis points.

Our net interest margin and net interest spread decreased in 2004 from 2003, primarily attributable to the reasons described in greater details above, including in particular a decrease in the yield of our corporate loans which is primarily due to increased competition, and a decrease in the yield of discounted bills which is primarily due to a decrease in the PBOC surplus reserve deposit interest rate.

Non-interest Income

Non-interest income represented 10.5%, 8.9% and 7.6% of our operating income for the years ended December 31, 2005, 2004 and 2003, respectively. The following table sets forth, for the periods indicated, the principal components of our non-interest income.

	For the year ended December 31,		
	2003	2004	2005
	(in millions of RMB)		
Fee and commission income	7,059	9,780	12,376
Fee and commission expenses	(1,435)	(1,572)	(1,830)
Net fee and commission income	5,624	8,208	10,546
Other operating income	4,452	5,023	7,471
Total	**10,076**	**13,231**	**18,017**

Our non-interest income increased by 36.2% to RMB18.0 billion in 2005 from RMB13.2 billion in 2004, primarily due to a combination of the increase in our net fee and commission income and the increase in our other operating income. Our non-interest income increased by 31.3% to RMB13.2 billion in 2004 from RMB10.1 billion in 2003, primarily due to an increase in our net fee and commission income and, to a lesser extent, an increase in our other operating income. The increase in our net fee and commission income reflected our continued focus on diversifying our sources of income.

Net Fee and Commission Income

Net fee and commission income is the largest component of our non-interest income. Our net fee and commission income increased by 28.5% to RMB10.5 billion in 2005 from RMB8.2 billion in 2004, and increased by 45.9% in 2004 from RMB5.6 billion in 2003. These increases reflected our expanding intermediary business as an important component of our business strategy. The following table sets forth, for the periods indicated, the principal components of our net fee and commission income.

	For the year ended December 31,		
	2003	**2004**	**2005**
	(in millions of RMB)		
Fee and commission income			
Renminbi settlement and clearing	1,719	2,374	2,824
Bank card business	1,001	1,616	2,346
Investment banking	796	1,234	2,018
Wealth management	1,446	1,843	1,929
Agency services	815	963	1,081
Foreign currency intermediary business	654	778	879
Electronic banking services	114	235	421
Custody	86	182	263
Guarantees and commitments	163	166	261
Others	265	389	354
Gross fee and commission income	**7,059**	**9,780**	**12,376**
Fee and commission expenses	**(1,435)**	**(1,572)**	**(1,830)**
Net fee and commission income	**5,624**	**8,208**	**10,546**

Renminbi Settlement and Clearing

Renminbi settlement and clearing fee income consists primarily of fees earned on money transfer and settlement and clearing services and cash management services. Renminbi settlement and clearance fees increased by 19.0% to RMB2.8 billion in 2005 from RMB2.4 billion in 2004, which increased by 38.1% from RMB1.7 billion in 2003. The increase in Renminbi settlement and clearance fee income from 2003 to 2005 was primarily due to increased transaction volumes, particularly for personal customers. It also reflects the expansion of our cash management services.

Bank Card Business

Bank card fee income consists primarily of annual fees on our debit and credit cards, transaction fees from merchants on the use of our bank cards and transaction fees charged for servicing cards issued by other banks. Bank card fee income increased by 45.2% to RMB2.3 billion in 2005 from RMB1.6 billion in 2004, which increased by 61.4% from RMB1.0 billion in 2003. These increases were primarily due to the introduction of annual fees on our debit cards starting in the second half of 2004, increased merchant fees on our cards and increased transaction fees for servicing other banks' cards, in the latter two cases reflecting increased transaction volumes from 2003 to 2005.

Investment Banking

Investment banking fee income consists primarily of fees earned on our financial consulting, corporate investment and finance advisory, mergers and acquisitions advisory, and syndicate arrangement services. Investment banking fee income increased by 63.5% to RMB2.0 billion in 2005 from RMB1.2 billion in 2004, which increased by 55.0% from RMB0.8 billion in 2003. The increase in investment banking fee income from 2003 to 2005 was primarily due to increases in (i) our financial advisory fees from providing consulting and other advisory services to small- and medium-sized enterprises and listed companies, reflecting both an increase in the number of customers and fees per customer, and (ii) fees from our corporate investment and finance advisory, credit information, and syndicate arrangement and underwriting services, reflecting increased business volumes.

Wealth Management

Wealth management fee income consists primarily of fees from the distribution of government bonds and other securities, third-party investment funds, and life and other insurance products. Income arising from our wealth management services increased by 4.7% to RMB1.9 billion in 2005 from RMB1.8 billion in 2004, which increased by 27.5% from RMB1.4 billion in 2003. The increase from 2003 to 2005 was primarily due to increased transaction volumes in the distribution of life insurance products, mutual funds and government bonds.

Agency Services

Agency service fee income consists primarily of fees earned on our corporate agency securities, corporate agency insurance, collection and disbursement services, including effecting transactions in securities for customers, payroll payment services, and the collection of utilities and telecommunications payments. Agency service fee income increased by 12.3% to RMB1.1 billion in 2005 from RMB1.0 billion in 2004, which increased by 18.2% from RMB0.8 billion in 2003. The increase in agency service fees from 2003 to 2005 was primarily due to increased transaction volumes in our collection and disbursement services.

Foreign Currency Intermediary Business

Foreign currency intermediary business fee income consists primarily of fees earned on our international settlement and customer foreign currency trading services. Foreign currency intermediary business fee income increased by 13.0% to RMB0.9 billion in 2005 from RMB0.8 billion in 2004, which increased by 19.0% from RMB0.7 billion in 2003. The increase in foreign currency intermediary business fees from 2003 to 2005 was primarily due to increased transaction volumes.

Electronic Banking Services

Income from our electronic banking services consists primarily of annual fees, agency fees, settlement fees and electronic commerce transaction fees. Income from our e-banking services increased by 79.1% to RMB421 million in 2005 from RMB235 million in 2004, which increased by 106.1% compared to RMB114 million in 2003. These increases were primarily due to increased e-banking transaction volumes.

Custody

Income from our custody services consists primarily of custody fees collected on the assets of investment funds, insurance companies, social security funds, and qualified foreign institutional investors, or QFIIs, that are under our custody. The custody fees are determined based on the net asset value of the assets under custody. Income from our asset custody services increased by 44.5% to

RMB263 million in 2005 from RMB182 million in 2004, which increased by 111.6% from RMB86 million in 2003. These increases were primarily attributable to an increase both in the value of assets under custody and the number of funds under custody.

Guarantees and Commitments

Income from our RMB- and foreign currency-denominated guarantee fees increased by 57.2% to RMB261 million in 2005 from RMB166 million in 2004, which remained effectively stable compared to 2003. The increase in our guarantee fees in 2005 was primarily due to an increase in the transaction volumes of Renminbi-denominated guarantees.

Fee and Commission Expenses

Fee and commission expenses consist primarily 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. Our fee and commission expenses increased by 16.4% to RMB1.8 billion in 2005 from RMB1.6 billion in 2004, which increased by 9.5% from RMB1.4 billion in 2003, primarily due to increased transaction volumes in our fee- and commission-based services.

Other Operating Income

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

	For the year ended December 31,		
	2003	**2004**	**2005**
	(in millions of RMB)		
Gain from foreign exchange and foreign exchange products, net	1,190	894	2,255
Gain on investments in securities, net	553	358	107
Gain/(loss) from other dealing activities, net	(326)	660	1,207
Gain on disposal of property and equipment and other assets, net	482	814	626
Sundry banking income[1]	893	744	1,309
Others[2]	1,660	1,553	1,967
Total	**4,452**	**5,023**	**7,471**

(1) Consists primarily of dormant deposits, reversals of other payables, recoveries of litigation expenses, and bank card overdue fees.

(2) Consists of operating lease income, recoveries on other assets previously written off, and miscellaneous items.

Other operating income increased by 48.7% to RMB7,471 million in 2005 compared to RMB5,023 million in 2004 and increased by 12.8% in 2004 compared to RMB4,452 million in 2003. The increase in other operating income in 2005 compared to 2004 was primarily due to an increase in the net gain from foreign exchange and foreign exchange products and, to a lesser extent, increases in sundry banking income, the net gain from other dealing activities, and other miscellaneous items. The increase in other operating income in 2004 compared to 2003 was primarily attributable to increases in the net gain on other dealing activities and, to a lesser extent, the net gain on disposal of property, equipment and other assets.

Net Gain from Foreign Exchange and Foreign Exchange Products

The net gain from foreign exchange and foreign exchange products consists primarily of net realized and unrealized gains or losses on our foreign currency holdings, foreign currency derivatives transactions, and foreign currency dealing activities.

In 2005, our foreign currency holdings were primarily attributable to the US$15.0 billion Huijin capital contribution, and our foreign currency derivatives transactions were primarily attributable to a foreign currency option contract that we entered into with Huijin in the notional amount of US$12.0 billion to manage our foreign currency exposures resulting from the Huijin capital contribution. Our net gain from foreign exchange and foreign exchange products increased to RMB2.3 billion in 2005 compared to RMB894 million in 2004, primarily attributable to an unrealized gain in the amount of RMB4.2 billion arising from this option contract, which reflected primarily an appreciation in the value of the Renminbi against the U.S. dollar. See "—Quantitative and Qualitative Analysis of Market Risk—Exchange Rate Risk." This unrealized gain was offset by an RMB2.2 billion translation loss resulting from a decrease in the Renminbi value of both the US$15.0 billion Huijin capital contribution and the foreign currency holdings used in our treasury operations. In 2003 and 2004, our foreign currency holdings were primarily attributable to the foreign currency holdings used in our treasury operations. Our foreign currency derivatives transactions were primarily attributable to our effecting forward, swap, option and other similar transactions with our customers and managing our positions resulting from such transactions.

Our foreign currency dealing activities were primarily attributable to our effecting foreign currency transactions with our customers, on which we charge an exchange rate spread, and managing our foreign currency positions resulting from such transactions. Our net gain from foreign exchange and foreign exchange products decreased by 24.9% to RMB894 million in 2004 compared to RMB1,190 million in 2003, primarily attributable to a net unrealized loss of RMB202 million in 2004 on our foreign currency derivatives compared to a net unrealized gain of RMB88 million in 2003. Our net realized gains from foreign exchange and foreign exchange products remained effectively stable in 2004 compared to 2003.

Net Gain on Investments in Securities

The net gain on investments in securities consists of net realized and unrealized gains or losses on our securities held for trading purposes or recognized at fair value through profit or loss, as well as net realized gains or losses on our investment portfolio (other than interest income), which consists of available-for-sale and held-to-maturity debt securities. Our net gain on investments in securities decreased by 70.1% to RMB107 million in 2005 from RMB358 million in 2004, which decreased by 35.3% from RMB553 million in 2003. The decrease in 2005 compared to 2004 was primarily due to unrealized losses on the part of our investment portfolio on which we apply hedge accounting, which losses reduced the amount of net gains in 2005. These losses were partially offset by an increase in realized gains on our securities held for trading purposes. The decrease in 2004 compared to 2003 was primarily due to a decrease in realized gains on our trading portfolio, partially offset by a decrease in unrealized losses.

Net Gain Arising from Other Dealing Activities

The net gain arising from other dealing activities consists primarily of net realized and unrealized gains or losses arising from derivatives transactions. Our derivatives transactions primarily consist of transactions entered into with our customers and proprietary derivatives transactions entered into to manage some of our market risks. Our net gain arising from other dealing activities increased by 82.9% to RMB1,207 million in 2005 from RMB660 million in 2004, which increased from a net loss of RMB326 million in 2003. The increase in 2005 compared to 2004 was attributable primarily to an increase in the volume in our derivatives transactions and an increase in unrealized gains from the derivatives on which we apply hedge accounting. The increase in 2004 compared to 2003 was primarily attributable to a volume increase in our derivatives transactions. Our net loss from other dealing activities in 2003 was primarily attributable to unrealized losses arising from the derivatives transactions we entered into to manage certain of our market risks.

Net Gain on Disposal of Property and Equipment and Other Assets

The net gain on disposal of property and equipment and other assets arises primarily from our sales of properties and buildings that are no longer necessary to our continued operations. The amount of net gain we recognize in any one year is primarily a function of the timing and volume of our disposals and has varied from year to year without following any particular trend.

Sundry Banking Income

Our sundry banking income consists primarily of income arising from dormant deposits, reversals of payables, which were payables that had been outstanding for a prolonged period of time, recoveries of litigation expenses, which were advances made for court costs in connection with litigation claims that were written off, and bank card overdue fees. Income from dormant corporate deposits relates to corporate deposits that are inactive for a prolonged period of time, which may be recognized as our income until such time as they are claimed. Our sundry banking income increased by 75.9% to RMB1,309 million in 2005 compared to RMB744 million in 2004, primarily due to a combination of (i) increased recoveries of litigation expenses, and (ii) an increase in the reversals of payables. Our sundry banking income decreased by 16.7% to RMB744 million in 2004 compared to RMB893 million in 2003, primarily due to a decrease in the income from the reversals of payables and income from dormant corporate deposits.

Operating Expenses

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

	For the year ended December 31,		
	2003	2004	2005
	(in millions of RMB, except percentages)		
General staff expenses[(1)]	20,181	22,223	27,990
Supplementary retirement benefits	193	(2,677)	4,770
Property and equipment expenses	12,658	12,835	14,409
Operating and administrative expenses	10,442	10,383	10,484
Business tax and surcharges	7,279	8,270	9,419
Expenses in relation to special government bond	6,120	6,120	5,610
Others[(2)]	5,702	5,485	8,903
Total	**62,575**	**62,639**	**81,585**
Cost-to-income ratio[(3)]	47.1%	42.3%	47.5%
Adjusted cost-to-income ratio[(4)]	38.8%	34.0%	40.1%

(1) Includes directors' and supervisors' emoluments.
(2) Includes one-time housing subsidy in the amount of RMB736 million for the year ended December 31, 2003.
(3) Calculated by dividing total operating expenses by operating income.
(4) Calculated by dividing total operating expenses (less business tax and surcharges and expenses in relation to special government bond) by operating income (less interest income in relation to special government bond, and in the case of the year ended December 31, 2005, other than interest income accrued after December 1, 2005). See "—Critical Accounting Policies" and "—Results of Operations for the Years Ended December 31, 2005, 2004 and 2003—Operating Expenses—Expenses in Relation to Special Government Bond."

Our operating expenses increased by 30.2% to RMB81.6 billion in 2005 compared to RMB62.6 billion in 2004. This was primarily due to an increase in our supplementary retirement benefits and, to a lesser extent, an increase in general staff expenses. Our operating expenses remained effectively stable in 2004 compared to 2003.

General Staff Expenses

The following table sets forth, for the periods indicated, the components of our general staff expenses, which include directors' and supervisors' emoluments.

	For the year ended December 31,		
	2003	2004	2005
	(in millions of RMB)		
Salaries and bonuses	13,435	14,767	18,975
Defined contribution plans	1,573	1,946	2,413
Other staff benefits[(1)]	5,173	5,510	6,602
Total	**20,181**	**22,223**	**27,990**

(1) Consists primarily of contributions to the provident housing fund, unemployment, medical, injury and maternity insurance, staff education fees, union fees and other staff benefits.

General staff expenses consist primarily of salaries and bonuses, social insurance contributions, pension scheme contributions, housing and medical benefits, and other staff welfare. General staff expenses increased by 26.0% in 2005 compared to 2004, which increased by 10.1% compared to 2003, due to an increase in our salaries and bonuses and related contributions and benefits.

Salaries and bonuses increased from 2003 through 2005, primarily due to increases in the level of employee compensation, reflecting our improved results of operations and financial condition and the increasing level of employee compensation in the PRC banking industry in recent years. Since our contributions to funded defined contribution pension schemes, insurance and other social contributions, staff welfare and other staff benefits are based on our employees' salaries, these contributions and benefits increased from 2003 through 2005 in line with the increases in salary levels.

Supplementary Retirement Benefits

We provide supplementary retirement benefits to certain employees who retired prior to June 30, 2005. These benefits are recognized as a liability. We have obtained the approval of the MOF and made a special provision in the amount of RMB29.2 billion with respect to the supplementary retirement benefits in connection with our financial restructuring in 2005. The amount of such liability is calculated based on actuarial assumptions of a number of variables including the discount rate, healthcare cost increase rate, average life expectancy of these retirees and other factors. The difference between the actual amount of these variables and the actuarial assumptions may result in variations in the amount of supplemental retirement benefits. We recognize year-on-year variations in the amount of supplemental retirement benefits as gains or losses in the year of occurrence. While we believe our current actuarial assumptions to be accurate, actual conditions may be different from these assumptions and the amount of gains or losses arising from our supplemental retirement benefits may be affected. The changes in our actuarial gains or losses for the years ended December 31, 2005, 2004 and 2003 were primarily due to the changes in the discount rates used in our actuarial assumptions.

Property and Equipment Expenses

The following table sets forth, for the periods indicated, the components of our property and equipment expenses.

	For the year ended December 31,		
	2003	**2004**	**2005**
	(in millions of RMB)		
Depreciation	8,654	8,977	9,852
Operating lease expenses	1,704	1,698	1,895
Utility expenses	1,229	1,247	1,406
Repairs and maintenance charges	1,071	913	1,256
Total	**12,658**	**12,835**	**14,409**

Depreciation

We depreciate our properties and buildings, leasehold improvements, office equipment and computers and motor vehicles, whereas we do not recognize any depreciation expense on construction in progress. Our depreciation expenses increased by 9.7% to RMB9.9 billion in 2005 compared to RMB9.0 billion in 2004, primarily due to a re-valuation of our fixed assets at June 30, 2005 in connection with our financial restructuring, which resulted in the creation of a depreciable revaluation surplus in the amount of RMB22.7 billion. Our depreciation expenses increased by RMB0.3 billion, or

3.7%, to RMB9.0 billion in 2004 compared to RMB8.7 billion in 2003, primarily due to increases in our fixed assets as a result of our expanding business.

Operating and Administrative Expenses

Operating and administrative expenses consist primarily of expenses relating to printing, supplies, publication and stationery, electronic supplies, travel, promotions and advertising, and telecommunications and postage. Our operating and administrative expenses remained effectively stable during the three years ended December 31, 2005. Our travel and publication and stationery expenses decreased overall from 2003 through 2005, reflecting our introduction of cost control measures on these items, such as centralized purchasing.

Business Tax and Surcharges

Business tax is levied at 5% primarily on our interest income from loans to customers and our gross fee and commission income. In addition, certain surcharges are levied at aggregate rates, depending on the locality, up to 10% of the amount of our business tax paid. The increase in our business tax and surcharges from 2003 through 2005 was in line with the increase in our interest income and non-interest income during the same period.

Expenses in Relation to Special Government Bond

For a description of the expenses in relation to the special government bond, see "Our Restructuring and Operational Reform—Financial Restructuring—Amendment to the Terms of a Special Government Bond issued by the MOF."

Other Operating Expenses

Other operating expenses consist primarily of expenses relating to amortization, miscellaneous taxes, supervision fees and losses arising from writing off certain impaired assets. Other operating expenses increased by 62.3% to RMB8.9 billion in 2005 compared to RMB5.5 billion in 2004, which decreased by 3.8% compared to RMB5.7 billion in 2003. The increase in other operating expenses in 2005 was primarily due to an increase in losses arising from writing off certain impaired assets.

Provisions for Impairment Losses

Provisions for impairment losses consist primarily of provisions on loans and other assets. Provisions for impairment losses decreased by 12.5% to RMB27.0 billion in 2005 from RMB30.9 billion in 2004, which decreased by 15.0% from RMB36.3 billion in 2003.

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

	For the year ended December 31,		
	2003	2004	2005
	(in millions of RMB)		
Loans to customers	34,914	30,511	26,589
Nostro accounts	—	—	(6)
Property and equipment	100	—	289
Repossessed assets	484	348	101
Investment securities	789	—	13
Placements with banks and other financial institutions	6	—	28
Total	**36,293**	**30,859**	**27,014**

The largest component of our provisions for impairment losses consists of provisions on loans to customers. Provisions for impairment losses on loans to customers decreased by 12.9% to RMB26.6 billion in 2005 from RMB30.5 billion in 2004, which decreased by 12.6% from RMB34.9 billion in 2003. For details on changes in our allowance for loan losses, including provisions for impairment losses, see "Assets and Liabilities—Assets—Asset Quality of Our Loan Portfolio—Allowance for Impairment Losses on Loans to Customers."

Our provisions for impairment losses on property and equipment primarily reflect provisions on our properties and buildings and our construction in progress. The provisions for impairment losses on property and equipment in 2005 resulted primarily from an impairment loss of RMB182 million arising from our construction in progress.

Our provisions for impairment losses on repossessed assets reflect adverse changes in their prevailing conditions. These provisions decreased from 2003 to 2005, primarily as a result of our increased efforts to dispose of our repossessed assets in the ordinary course of our business and in connection with our financial restructuring in 2005.

Our provisions for impairment losses on investment securities reflect adverse changes in the prevailing conditions of our non-publicly traded equity holdings obtained through debt-to-equity swaps. These provisions decreased from 2003 to 2005, primarily as a result of our increased efforts to dispose of these holdings in the ordinary course of our business and in connection with our financial restructuring in 2005.

Our provisions for impairment losses on placements with banks and other financial institutions primarily reflect provisions on our placements with other PRC financial institutions, particularly securities firms. The provisions for impairment losses on placements with banks and other financial institutions in 2005 resulted primarily from our outstanding placements with a failed securities firm in the PRC.

Income Tax Expense

The following table sets forth, for the period indicated, a reconciliation of our income tax expenses to the statutory PRC income tax rate of 33%.

	For the year ended December 31,		
	2003	2004	2005
	(in millions of RMB)		
Profit before tax	33,884	54,411	63,026
Tax at the statutory income tax rate	11,182	17,956	20,799
Non-deductible expenses[1]			
Staff costs	2,983	3,576	5,687
Write-offs	465	3,274	3,506
Others	1,589	3,491	745
Subtotal	5,037	10,341	9,938
Non-taxable income			
Income arising from government bonds	(2,424)	(2,610)	(4,315)
Income arising from Huarong bonds	(2,324)	(2,324)	(1,162)
Others	(179)	(170)	(253)
Subtotal	(4,927)	(5,104)	(5,730)
Tax charge at effective tax rate	**11,292**	**23,193**	**25,007**

(1) Amounts mainly represent staff costs in excess of the statutory deductible threshold for income tax purpose, assets write-offs that were not allowed for tax deduction by tax authorities, and entertainment expenses, depreciation and amortization charges which are not tax deductible.

Our income tax expense increased by 7.8% to RMB25.0 billion in 2005 compared to RMB23.2 billion in 2004, which increased by 105.4% compared to RMB11.3 billion in 2003. Our income tax expense increased in 2005 from 2004 primarily due to our increased profit before tax. Our effective tax rate in 2003 was in line with the statutory tax rate of 33%. Our effective tax rate was 42.6% in 2004 and 39.7% in 2005. The increase in our effective tax rate in 2004 compared to 2003 was primarily due to a significant increase in the amount of our asset write-offs that were treated as non-deductible by the PRC tax authorities. The decrease in our effective tax rate in 2005 compared to 2004 was primarily due to the decrease in the amount of non-deductible asset write-offs, partially offset by an increase in non-deductible staff costs as a result of the increases in salaries and bonuses to our employees and a decrease in non-taxable income associated with the interest income from the Huarong bonds.

In connection with a disposal of non-performing assets to Huarong, we received a series of non-transferable ten-year bonds issued by Huarong with an aggregate face value of RMB313.0 billion in 2000-2001. See "Our Restructuring and Operational Reform—Our History." The interest income from the Huarong bonds was exempted from income taxes prior to July 1, 2005, on which date the taxation on this interest income was resumed pursuant to a notice issued by the MOF.

We have applied to the MOF and SAT for exemptions from certain taxes arising from our financial restructuring and deductions with respect to certain employee compensation expenses. We cannot assure you that we will be granted the amount of exemptions or deductions applied for or at all.

Net Profit

As a result of all the foregoing factors, our net profit increased by 21.8% to RMB38.0 billion in 2005 from RMB31.2 billion in 2004, which increased by 38.2% from RMB22.6 billion in 2003.

SUMMARY SEGMENT OPERATING RESULTS

Historically, we managed our business primarily along geographical lines based on our branch structure. In recent years, we have begun to reorganize our management structure with a view to managing our business through both the geographical lines and business segments. See "Our Restructuring and Operational Reform—Operational Reform."

Summary Business Segment Information

Our principal business segments are corporate banking, personal banking and treasury operations. The financial results of our business segments for the six months ended June 30, 2006 and 2005 and for the years ended December 31, 2005, 2004 and 2003 in this subsection are presented as if we had managed our business in such segments throughout these periods. For a description of products and services included in these segments, see "Business—Our Principal Business Activities."

We use a performance value management system (PVMS) as a management tool to assess the performance of our business segments. We apply an internal fund transfer pricing system based on market interest rates to allocate our net interest income among business segments. The market interest rates are based on and adjusted for PBOC benchmark rates and the interest rates on PBOC bills, government bonds, inter-bank deposits and placements and repurchase agreements. Inter-segment income and expenses recognized through the fund transfer pricing system are eliminated in our consolidated results of operations.

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

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

(1) As shown in Note 38 to the Accountants' Report in Appendix I to this prospectus, our personal banking segment generally incurs a net interest expense with respect to external third parties. This is because the personal banking segment's interest expense on personal deposits is generally greater than its interest income from personal loans, which in turn reflects the fact that the average balance of personal deposits is generally several times higher than the average balance of personal loans.

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

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 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,			
	2003		2004		2005		2005 (unaudited)		2006	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)									
Head office	16,077	12.1%	14,713	10.0%	18,828	11.0%	10,787	13.3%	7,594	8.9%
Yangtze River Delta	26,422	19.9	31,102	21.0	38,290	22.3	16,813	20.7	19,083	22.3
Pearl River Delta	18,272	13.8	20,766	14.0	22,560	13.1	10,332	12.8	10,691	12.5
Bohai Rim	26,388	19.9	30,076	20.3	34,381	20.0	16,806	20.7	17,177	20.0
Central China	17,014	12.8	18,787	12.7	21,023	12.3	9,824	12.1	11,581	13.5
Northeastern China	7,816	5.9	8,733	5.9	8,595	5.0	3,760	4.6	4,919	5.7
Western China	19,439	14.6	21,776	14.7	24,739	14.4	10,865	13.4	12,379	14.4
Overseas	1,356	1.0	2,006	1.4	3,204	1.9	1,905	2.4	2,326	2.7
Total operating income	**132,784**	**100.0%**	**147,959**	**100.0%**	**171,620**	**100.0%**	**81,092**	**100.0%**	**85,750**	**100.0%**

LIQUIDITY

We fund our loan and investment portfolios principally through our customer deposits. Although a majority of deposits from customers have been short-term deposits, deposits from customers have been, and we believe will continue to be, a stable source of our funding. The amount due to customers with remaining maturities of less than one year represented 91.0%, 92.9%, 93.5% and 93.6% of total deposits from customers at June 30, 2006, and December 31, 2005, 2004 and 2003, respectively. For additional information about our short-term liabilities and sources of funds, see "Assets and Liabilities—Liabilities and Sources of Funds" and "Regulation and Supervision—PRC Regulation and Supervision—Liquidity and Other Operational 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. In addition, we invest in a significant amount of liquid assets such as PBOC bills and PRC government bonds, which give us the flexibility to meet potential liquidity requirements. If further liquidity requirements arise, we have access to the inter-bank money market, where we have historically been a net lender.

The following table sets forth, at June 30, 2006, the remaining maturities of our assets and liabilities.

	At June 30, 2006						
	Overdue[(1)]/ Repayable on demand	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Undated[(2)]	Total
	(in millions of RMB)						
Assets							
Cash and balances with central banks	117,006	—	—	—	—	481,263	598,269
Due from banks and other financial institutions[(3)]	29,824	155,136	51,605	110	—	—	236,675
Loans to customers	45,412	573,034	1,001,223	887,210	772,421	96,042	3,375,342
Investments[(4)]	—	274,455	558,067	1,489,774	330,102	5,546	2,657,944
Property and equipment	—	—	—	—	—	88,709	88,709
Others[(5)]	15,222	21,859	9,965	5,952	2,720	41,968	97,686
Total assets	**207,464**	**1,024,484**	**1,620,860**	**2,383,046**	**1,105,243**	**713,528**	**7,054,625**
Liabilities							
Due to banks and other financial institutions[(6)]	242,006	101,155	35,007	672	—	—	378,840
Due to customers[(7)]	2,974,356	1,094,353	1,508,173	543,266	5,881	—	6,126,029
Debt issued[(8)]	—	—	—	2,987	35,000	—	37,987
Others[(9)]	136,029	17,765	21,942	6,487	81	—	182,304
Total liabilities	**3,352,391**	**1,213,273**	**1,565,122**	**553,412**	**40,962**	**—**	**6,725,160**
Liquidity gap	**(3,144,927)**	**(188,789)**	**55,738**	**1,829,634**	**1,064,281**	**713,528**	**329,465**
Cumulative liquidity gap	**(3,144,927)**	**(3,333,716)**	**(3,277,978)**	**(1,448,344)**	**(384,063)**		

(1) Includes loans and other assets on which either principal or interest is overdue for 30 days or less.
(2) Includes loans and other assets on which either principal or interest is overdue for more than 30 days.
(3) Includes amounts under reverse repurchase agreements.
(4) Include investments in associates.
(5) Consists of income tax recoverable, deferred income tax assets and other assets.
(6) Includes amounts under repurchase agreements.
(7) Includes certificates of deposits.
(8) Consists of notes payable and subordinated bonds.
(9) Consists of income tax payable, deferred income tax liabilities and other liabilities.

CASH FLOWS

The table below sets forth, for the periods indicated, our cash flows. See "Appendix I—Accountants' Report—Consolidated Cash Flow Statements."

	For the year ended December 31,			For the six months ended June 30,	
	2003	2004	2005	2005 (Unaudited)	2006
	(in millions of RMB)				
Net cash inflows from operating activities	160,884	120,764	367,494	149,922	329,355
Net cash outflows from investing activities	(132,124)	(200,067)	(397,411)	(144,767)	(196,208)
Net cash inflows/(outflows) from financing activities	(91)	4,533	158,448	124,024	39,659
Effect of exchange rate changes on cash and cash equivalents	322	169	(2,126)	27	(510)
Net increase /(decrease) in cash and cash equivalents	28,991	(74,601)	126,405	129,206	172,296

Cash Flows from Operating Activities

Cash inflows from operating activities are primarily attributable to our customer deposits and interest income received. The net increase in the balance of our customer deposits for the six months ended June 30, 2006 and 2005, and the year ended December 31, 2005, 2004 and 2003 was RMB382.2 billion, RMB327.0 billion, RMB560.6 billion, RMB448.0 billion and RMB536.5 billion, respectively. The interest income received for the six months ended June 30, 2006 and 2005, and the year ended December 31, 2005, 2004 and 2003 was RMB123.4 billion, RMB96.1 billion, RMB209.0 billion, RMB187.0 billion and RMB176.6 billion, respectively. In addition, cash inflows from operating activities for the six months ended June 30, 2006 were also attributable to an increase in the amounts due to banks and other financial institutions. The net increase in the amounts due to banks and other financial institutions in the six months ended June 30, 2006 and 2005 were RMB134.3 billion and RMB53.0 billion, respectively.

Cash outflows from our operating activities are primarily attributable to loan disbursements and interest payments. The net increase in the total balance of our loans for the six months ended June 30, 2006 and 2005, and the year ended December 31, 2005, 2004 and 2003 was RMB184.2 billion, RMB166.6 billion, RMB244.5 billion, RMB355.0 billion and RMB431.7 billion, respectively. The interest paid for the six months ended June 30, 2006 and 2005, and the year ended December 31, 2005, 2004 and 2003 was RMB44.6 billion, RMB33.9 billion, RMB82.3 billion, RMB68.2 billion and RMB63.4 billion, respectively.

Cash Flows from Investing Activities

Cash inflows from our investing activities are primarily attributable to proceeds from sale and redemption of investments. The proceeds from sale and redemption of our investments for the six months ended June 30, 2006 increased to RMB663.1 billion from RMB176.2 billion for the six months ended June 30, 2005, primarily due to an increase in the amount of PBOC bills matured, reflecting an increase in the amount of PBOC bills we held. Our proceeds from sale and redemption of investments for the year ended December 31, 2005, 2004 and 2003 was RMB327.1 billion, RMB270.3 billion and RMB222.0 billion, respectively. The increase in proceeds from sale and redemption of investments from 2003 to 2005 was primarily due to increased holdings in held-to-maturity and available-for-sale debt securities.

Our cash outflows from investing activities are primarily attributable to purchases of investments in debt instruments. Our purchases of investments in debt instruments for the six months ended June 30, 2006 increased to RMB858.1 billion from RMB320.5 billion for the six months ended June 30, 2005, primarily due to an increase in our purchases of held-to-maturity and available-for-sale debt securities, particularly PBOC bills. Our purchases of investments in debt instruments for the year ended December 31, 2005, 2004 and 2003 was RMB720.0 billion, RMB467.9 billion and RMB346.2 billion, respectively. The increase in our purchases of investments in debt instruments from 2003 to 2005 was primarily due to an increase in our purchases of held-to-maturity and available-for-sale debt securities.

Cash Flows from Financing Activities

Our cash inflows from financing activities are primarily attributable to capital injections, including the Huijin capital contribution, investments made by our strategic investors and other investors, and proceeds from debt issued. On April 22, 2005, Huijin contributed US$15 billion in cash as capital to our bank. On April 29, 2006, each of our overseas strategic investors, Goldman Sachs, Allianz and American Express subscribed our newly issued shares for a cash consideration of US$2,582 million, €825 million and US$200 million, respectively. On June 29, 2006, the SSF subscribed our newly issued shares for a consideration of RMB18 billion, of which RMB10 billion was paid in cash. The debt issued by us included the subordinated bonds with an aggregate principal amount of RMB35 billion issued during the six months ended December 31, 2005 and the notes with an aggregate principal amount of US$400 million issued by ICBCA (C.I.) Limited, a subsidiary of ICBC (Asia), in September 2004. We did not issue any debt in 2003.

Cash outflows from financing activities are primarily attributable to interest paid on debt issued and dividend paid to minority shareholders. The interest paid on debt issued increased to RMB616 million for the six months ended June 30, 2006 from RMB68 million for the six months ended June 30, 2005, primarily due to the interest paid on the subordinated bonds issued by us during the six months ended December 31, 2005. The interest paid on debt issued increased to RMB490 million for the year ended December 31, 2005 from RMB40 million for the year ended December 31, 2004, primarily attributable to interest paid on the US$400 million notes issued by ICBCA (C.I.) Limited, a subsidiary of ICBC (Asia), in September 2004. For the six months ended June 30, 2006 and 2005, and the year ended December 31, 2005, 2004 and 2003, dividend paid to minority shareholders of our subsidiaries amounted to RMB163 million, RMB146 million, RMB238 million, RMB186 million and RMB91 million, respectively.

CAPITAL RESOURCES

Shareholders' Equity

Our total equity increased to RMB329.5 billion at June 30, 2006 from RMB259.9 billion at December 31, 2005, negative RMB508.0 billion at December 31, 2004 and negative RMB539.1 billion at December 31, 2003. The accumulated deficit of RMB508.0 billion at December 31, 2004 primarily reflects our accumulated net losses for the period prior to that date as calculated in accordance with IFRS. These net losses were primarily due to impairment losses on loans in earlier years. The following table sets forth, for the periods indicated, the components of the changes in our total equity.

	Shareholders' equity	Minority interests	Total equity
	(in millions of RMB)		
At January 1, 2003	**(561,410)**	**1,586**	**(559,824)**
Net change in fair value of available-for-sale investments	(1,557)	—	(1,557)
Reserves realized on the disposal of available-for-sale investments	(313)	—	(313)
Foreign currency translation	123	—	123
Total income and expense for the year recognized directly in equity	(1,747)	—	(1,747)
Profit for the year	22,472	120	22,592
Total income and expense for the year	20,725	120	20,845
Transfer of capital	(64)	—	(64)
Profit distribution by a subsidiary(1)	—	(91)	(91)
At December 31, 2003	**(540,749)**	**1,615**	**(539,134)**
Net change in fair value of available-for-sale investments	(2,365)	—	(2,365)
Reserves realized on the disposal of available-for-sale investments	(95)	—	(95)
Foreign currency translation	114	—	114
Total income and expense for the year recognized directly in equity	(2,346)	—	(2,346)
Profit for the year	30,863	355	31,218
Total income and expense for the year	28,517	355	28,872
Transfer of capital	(2)	—	(2)
Subsidiary's shares issued to a minority shareholder	521	1,884	2,405
Profit distribution by a subsidiary(1)	—	(186)	(186)
At December 31, 2004	**(511,713)**	**3,668**	**(508,045)**
Net change in fair value of available-for-sale investments	3,453	—	3,453
Reserves realized on the disposal of available-for-sale investments	480	—	480
Foreign currency translation	(217)	(61)	(278)
Assets revaluation surplus arising from Restructuring	22,697	—	22,697
Total income and expense for the year recognized directly in equity	26,413	(61)	26,352
Profit for the year	37,555	464	38,019
Total income and expense for the year	63,968	403	64,371
Restructuring:			
Capital injection(2)	144,054	—	144,054
Capital adjustment	(8,028)	—	(8,028)
Equity contribution arising from the disposal of impaired assets	567,558	—	567,558
Subsidiary's shares issued to a minority shareholder	—	204	204
Profit distribution by a subsidiary(1)	—	(238)	(238)
At December 31, 2005	**255,839**	**4,037**	**259,876**
Net change in fair value of available-for-sale investments	(884)	—	(884)
Reserves realized on the disposal of available-for-sale investments	59	—	59
Foreign currency translation	31	(25)	6
Total income and expense for the period recognized directly in equity	(794)	(25)	(819)
Profit for the period	25,399	243	25,642
Total income and expense for the period	24,605	218	24,823
Issue of shares	48,466	—	48,466
Dividend -2005 final	(3,537)	—	(3,537)
Profit distribution by a subsidiary(1)	—	(163)	(163)
At June 30, 2006	**325,373**	**4,092**	**329,465**

(1) Profit distribution made by ICBC (Asia).

(2) Consists of a US$15.0 billion Huijin capital contribution and an injection of land use rights in the aggregate amount of RMB19.9 billion in connection with our financial restructuring.

Capital Adequacy

We are subject to capital adequacy requirements as promulgated by the CBRC, which require PRC commercial banks to maintain a minimum core capital adequacy ratio of 4% and a capital adequacy ratio of 8%. In March 2004, the CBRC introduced new guidelines which amended the method by which capital adequacy ratios are calculated. See "Regulation and Supervision—PRC Regulation and Supervision—Capital Adequacy."

The ratios at December 31, 2005 are prepared in accordance with the statutory financial statements and do not reflect the impact of Caikuai (2005) No. 14 "Provisional Guidelines on Recognition and Measurement of Financial Instruments" issued by the MOF. The ratios as at June 30, 2006 are prepared in accordance with the PRC GAAP.

	At December 31, 2005	At June 30, 2006
	(in millions of RMB, except percentages)	
Core capital adequacy ratio	**8.11%**	**8.97%**
Capital adequacy ratio	**9.89%**	**10.74%**
Components of capital base		
Core capital:		
Issued share capital/paid-up capital	248,000	286,509
Reserves	5,444	19,916
Minority interests	4,037	4,092
Total core capital	**257,481**	**310,517**
Supplementary capital:		
General provisions for doubtful debts	21,846	26,111
Reserve for net change in the fair value of available-for-sale investments	—	604
Subordinated bonds	35,000	35,000
Total supplementary capital	**56,846**	**61,715**
Total capital base before deductions	**314,327**	**372,232**
Deductions:		
Unconsolidated equity investments(1)	(1,176)	(1,416)
Goodwill(1)	(1,307)	(1,265)
Net Capital Base	**311,844**	**369,551**
Core capital base after deductions(1)	**255,586**	**308,544**
Risk weighted assets and market risk capital adjustment	**3,152,206**	**3,439,547**

(1) Pursuant to applicable PRC regulations, the core capital base after deductions was derived by applying 50% and 100% of deductions in the unconsolidated equity investments and goodwill, respectively.

Our capital adequacy ratio and core capital adequacy ratio at December 31, 2004 and 2003 were below regulatory requirements and we had capital deficits at December 31, 2004 and 2003. No sanctions were imposed on us for our failure to meet the regulatory requirements. At June 30, 2006 and December 31, 2005, our capital adequacy ratio was 10.74% and 9.89%, respectively, and our core capital adequacy ratio was 8.97% and 8.11%, respectively, and thus we were in compliance with the requirements.

OFF-BALANCE SHEET COMMITMENTS

Our off-balance sheet commitments consist primarily of loan commitments, guarantees, letters of credit and acceptances. Loan commitments are our commitments to extend credit. We issue guarantees and letters of credit to guarantee the performance of our customers to third parties. Acceptances comprise undertakings by us to pay bills of exchange issued by our customers. The following table sets forth the contractual amounts of our off-balance sheet commitments at the dates indicated.

	At December 31,			At June 30,
	2003	2004	2005	2006
	(in millions of RMB)			
Irrevocable loan commitments	123,588	172,565	100,231	195,220
Letters of credit issued	55,913	59,674	51,718	57,784
Guarantees issued	83,786	92,573	121,117	146,998
Acceptances	83,511	68,736	92,565	122,390
Total	**346,798**	**393,548**	**365,631**	**522,392**

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following table sets forth our known contractual obligations by remaining maturity classified into the categories specified below at June 30, 2006. This table is based on disclosure requirements applicable to domestic and foreign issuers in the United States and is presented for the convenience of our international investors.

	At June 30, 2006			
	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
	(in millions of RMB)			
On-balance sheet				
Subordinated debt obligations	—	—	35,000	35,000
Certificates of deposit issued	3,095	3,896	—	6,991
Notes payable	—	2,987	—	2,987
Off-balance sheet				
Operating lease commitments	1,467	2,936	1,341	5,744
Redemption obligation (bearer-form treasury bonds)	82,613	168,116	—	250,729
Subtotal	87,175	177,935	36,341	301,451
Capital commitments authorized or contracted for				7,861
Total				**309,312**

QUANTITATIVE AND QUALITATIVE ANALYSIS OF MARKET RISK

Market risk arises from movements in market variables such as interest rates, exchange rates, equity prices and commodity prices, and other market changes that affect market risk-sensitive instruments. We are exposed to market risk primarily through the assets and liabilities on our balance sheet, as well as our off-balance sheet commitments and guarantees. The principal types of market risk affecting our business are interest rate risk and exchange rate risk. We have imposed a set of exposure limits for our investment and trading activities in an effort to manage potential market losses within acceptable limits.

Interest Rate Risk

The primary source of our interest rate risk arises from mismatches in the maturity or repricing periods of our interest rate-sensitive assets and liabilities. Maturity mismatches may cause net interest income to be affected by changes in the prevailing level of interest rates. Currently, we use both a gap analysis and a sensitivity analysis (based on the impact of 100 basis point increases or decreases in interest rates on our net interest income) to assess our exposure to interest rate risk. In addition, different pricing bases for different products may also lead to interest rate risk for our assets and liabilities within the same repricing period. We manage our interest rate risk exposure primarily by adjusting the maturity profile of our banking portfolio based on our assessment of potential changes in the interest rate environment.

The following table sets forth, at June 30, 2006, the results of our gap analysis based on the earlier of (i) the next expected repricing dates and (ii) the final maturity dates for our assets and liabilities.

	At June 30, 2006						
	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Interest-bearing total	Non-interest bearing	Total
	(in millions of RMB)						
Assets							
Loans to customers	1,240,046	2,134,849	198	249	3,375,342	—	3,375,342
Investments[(1)]	340,501	670,342	1,386,302	255,253	2,652,398	5,546	2,657,944
Cash and balances with central banks	566,513	—	—	—	566,513	31,756	598,269
Due from banks and other financial institutions[(2)]	184,960	51,605	110	—	236,675	—	236,675
Others[(3)]	—	—	—	—	—	186,395	186,395
Total assets	**2,332,020**	**2,856,796**	**1,386,610**	**255,502**	**6,830,928**	**223,697**	**7,054,625**
Liabilities							
Due to customers[(4)]	4,015,452	1,508,173	543,266	5,881	6,072,772	53,257	6,126,029
Due to banks and other financial institutions[(5)]	343,161	35,007	672	—	378,840	—	378,840
Debt issued[(6)]	9,000	—	15,987	13,000	37,987	—	37,987
Others[(7)]	—	—	—	—	—	182,304	182,304
Total liabilities	**4,367,613**	**1,543,180**	**559,925**	**18,881**	**6,489,599**	**235,561**	**6,725,160**
Pricing gap	**(2,035,593)**	**1,313,616**	**826,685**	**236,621**	**341,329**	**N/A**	**N/A**
Cumulative pricing gap	**(2,035,593)**	**(721,977)**	**104,708**	**341,329**	**341,329**	**N/A**	**N/A**
Sensitivity analysis[(8)]							
100 basis point increase	(20,356)	13,136	8,267	2,366	3,413		
100 basis point decrease	20,356	(13,136)	(8,267)	(2,366)	(3,413)		

(1) Includes investments in associates.
(2) Includes amounts under reverse repurchase agreements.
(3) Consists of property and equipment, deferred income tax assets, income tax recoverable and other assets.
(4) Includes certificates of deposits.
(5) Includes amounts under repurchase agreements.
(6) Consists of notes payable and subordinated bonds.
(7) Consists of income tax payable, deferred income tax liabilities and other liabilities.
(8) The sensitivity analysis above sets forth, for the repricing period indicated, the impact of changes in interest rates on the net interest income from our total portfolio of net assets on an annualized basis. For example, if interest rates increased by 100 basis points, we expect that the net interest income from the portion of our portfolio at June 30, 2006, that reprices or is due within three months would, if we immediately repriced this portfolio, decrease by RMB20,356 million on an annualized basis. This sensitivity analysis is for risk management purposes and assumes that no other changes were made to the portfolio. Actual changes in net interest income may vary from this model.

Exchange Rate Risk

The primary source of our exchange rate risk arises from currency mismatches in our assets and liabilities. We primarily monitor our net currency positions to assess our exposure to exchange rate risk. We manage our exchange rate risk primarily by seeking to match the assets and liabilities on a currency-by-currency basis.

The following table sets forth, at June 30, 2006, our assets and liabilities by currency.

	At June 30, 2006				
	RMB	US$(1)	HK$(2)	Others(3)	Total
	(in millions of RMB equivalent)				
Assets					
Loans to customers	3,149,983	120,088	88,866	16,405	3,375,342
Investments(4)	2,524,442	115,472	6,930	11,100	2,657,944
Cash and balances with central banks	589,487	5,611	1,719	1,452	598,269
Due from banks and other financial institutions(5)	115,087	99,796	4,756	17,036	236,675
Property and equipment	87,917	340	259	193	88,709
Others(6)	82,809	10,994	2,323	1,560	97,686
Total assets	**6,549,725**	**352,301**	**104,853**	**47,746**	**7,054,625**
Liabilities					
Due to customers(7)	5,867,087	156,254	81,902	20,786	6,126,029
Due to banks and other financial institutions(8)	312,779	48,171	8,714	9,176	378,840
Debt issued(9)	35,000	2,987	—	—	37,987
Others(10)	157,984	8,795	7,923	7,602	182,304
Total liabilities	**6,372,850**	**216,207**	**98,539**	**37,564**	**6,725,160**
Net position	**176,875**	**136,094**	**6,314**	**10,182**	**329,465**
Off-balance sheet credit commitments	**366,699**	**99,926**	**31,266**	**24,501**	**522,392**

(1) Translated at the exchange rate of RMB7.9956 to US$1.00 as set by the PBOC for foreign exchange transactions prevailing on June 30, 2006.
(2) Translated at the exchange rate of RMB1.0294 to HK$1.00 as set by the PBOC for foreign exchange transactions prevailing on June 30, 2006.
(3) Translated at the Renminbi exchange rates for the relevant foreign currencies as set by the PBOC for foreign exchange transactions prevailing on June 30, 2006.
(4) Includes investments in associates.
(5) Includes amounts under reverse repurchase agreements.
(6) Consists of deferred income tax assets, income tax recoverable and other assets.
(7) Includes certificates of deposits.
(8) Includes amounts under repurchase agreements.
(9) Consists of notes payable and subordinated bonds.
(10) Consists of income tax payable, deferred income tax liabilities, and other liabilities.

Any appreciation of the Renminbi against the U.S. dollar or any other foreign currencies may result in a decrease in the value of our foreign currency-denominated assets. On April 30, 2005, we entered into a foreign exchange option contract with Huijin in an effort to economically hedge a part of the currency risk arising from the US$15.0 billion Huijin capital contribution. This capital contribution significantly increased our foreign currency assets. See "Risk Factors—Risks Relating to China—We are subject to PRC government controls on currency conversion and future movements in exchange rates." Pursuant to the foreign exchange option contract with Huijin, we purchased from Huijin an option to sell a maximum of US$12.0 billion in exchange for Renminbi at a pre-determined exchange rate of US$1 to RMB8.2765. The option is exercisable in 2008 in twelve equal monthly installments.

Whether or not the option is exercised, we will pay Huijin an aggregate consideration of RMB3.0 billion in twelve equal monthly installments in 2008.

The following table sets forth our U.S. dollar-denominated debt instruments by category of issuer at June 30, 2006.

	At June 30, 2006	
	Amount	% of total
	(in millions of RMB equivalent, except percentages)	
Banks and other financial institutions	62,804	54.5%
Overseas operations	21,161	18.3
Governments	25,455	22.1
Policy banks	5,459	4.7
Enterprises	476	0.4
Total	**115,355**	**100.0%**

CAPITAL EXPENDITURES

Our capital expenditures from 2003 through June 30, 2006 were primarily applied to expansion and relocations of our branch and outlet network. In addition, we applied our capital expenditures to information technology systems. For the six months ended June 30, 2006, our capital expenditures totaled RMB1.7 billion, a decrease of 33.8% from RMB2.6 billion for the six months ended June 30, 2005. Our capital expenditures increased by 9.7% to RMB9.2 billion in 2005 from RMB8.4 billion in 2004, which decreased by 7.0% from RMB9.0 billion in 2003. At June 30, 2006, we had authorized capital commitments of RMB7.9 billion, of which RMB1.2 billion were contracted for, and RMB6.7 billion were authorized but not contracted for. The foregoing amounts and purposes may change depending on business conditions.

CRITICAL ACCOUNTING POLICIES

We have identified certain accounting policies that are significant to the preparation of our financial information. These significant accounting policies, which are important for the understanding of our financial condition and results of operations, are set forth in detail in Note 2 to the Accountants' Report in Appendix I to this prospectus. These accounting policies usually involve subjective assumptions and estimates, and complex judgments relating to accounting items such as asset values and impairment losses. In each case, the determination of these items requires management judgment based on information and financial data that may change in future periods. We set out below the accounting policies used in the preparation of our financial information that we believe involve the most significant estimates and judgments.

Allowance for Impairment Losses on Loans

In 2003 when we adopted IFRS, we began to assess our loans for impairment, determine a level of allowance for credit losses, and recognize any related provisions made in a period by using the concept of impairment under IAS 39. For purposes of the financial information included in the Accountants' Report in Appendix I to this prospectus, the allowance for credit losses and provisions for impairment losses are presented on a consistent basis for all the periods presented.

Our loans are reported on the balance sheet net of the allowance for credit losses. Loans are assessed at each balance sheet date to determine whether there is any objective evidence that impairment of a loan or portfolio of loans has occurred. A loan or portfolio of loans is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that event (or events) has an impact on the estimated future cash flows of the loan or portfolio of loans that can be reliably estimated.

Losses expected as a result of future events, no matter how likely, are not recognized because the necessary loss event has not yet occurred. We use two methods of assessing impairment losses: on an individual basis and on a collective basis.

Individually Assessed Loans

All corporate loans and discounted bills are individually reviewed for objective evidence of impairment and then classified based on a five-category classification system. Corporate loans and discounted bills that are classified as substandard, doubtful or loss regardless of size are assessed individually for impairment.

If there is objective evidence that an impairment loss on a loan or advance has incurred on an individual basis, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of the allowance for credit losses. The amount of the impairment loss is recognized in the consolidated income statement.

Loans which are assessed individually for impairment are assessed in light of objective evidence of loss events, such as:

- significant financial difficulties for the borrower;
- a breach of contract by the borrower, such as a default or delinquency in making principal or interest payments;
- a concession to the borrower by us that we would not consider making other than for economic or legal reasons relating to the borrower's financial difficulties; or
- the likelihood that the borrower will experience financial deterioration, or enter into bankruptcy proceedings or other forms of financial reorganization based upon events that have already occurred.

It may not be possible to identify a single, discrete event that caused the impairment, but it may be possible to identify impairment through the combined effect of several events. Cash flows relating to short-term loans are not discounted if the effect of discounting is immaterial. The calculation of the present value of the estimated future cash flows of a secured loan reflects that cash flows that may result from the sale of collateral through foreclosure, less the costs of obtaining and selling the collateral, whether or not foreclosure is probable.

Collectively Assessed Loans

Loans that are assessed for impairment losses on a collective basis include the following:

- homogeneous groups of loans, including all of our personal loans; and
- all loans for which no impairment can be identified individually, either due to the absence of any loss events or due to an inability to measure reliably the impact of potential loss events on future cash flows.

For the purpose of collective assessment, assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms.

Objective evidence of impairment losses on a collective basis consists of observable data indicating a measurable decrease in the estimated future cash flows from a group of loans since the initial recognition of those loans, including:

- adverse changes in the payment status of borrowers in the group of loans; and
- national or local economic conditions that correlate with defaults on assets in the group of loans.

Homogeneous Groups of Loans Not Considered Individually Significant

For homogeneous groups of loans, we adopt a flow rate methodology to assess impairment losses on a collective basis. This methodology utilizes an analysis of historical trends of probability of default and amount of consequential loss, as well as an evaluation of current economic conditions that may have a consequential impact on inherent losses in the portfolio.

Individually Assessed Loans with No Objective Evidence of Impairment

When no impairment can be identified for individual loans, either due to the absence of any loss events or due to an inability to measure reliably the impact of potential loss events on future cash flows, these loans are grouped together in portfolios of similar credit risk characteristics for the purpose of assessing a collective impairment loss. This loss covers those loans that were impaired at the balance sheet date but which will not be individually identified as impaired until some time in the future. The collective impairment loss is assessed after taking into account:

- historical loss experience in portfolios of similar risk characteristics; and
- the current economic and credit environments and whether in management's experience these indicate that the actual level of incurred but not yet identified losses is likely to be greater or less than that suggested by historical experience.

As soon as information is available that specifically identifies objective evidence of impairment on individual assets in a pool, those assets are individually assessed. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment for impairment.

Valuation of Investment Securities

We classify investment securities on our balance sheet into (i) receivables, (ii) held-to-maturity assets, (iii) available-for-sale assets and (iv) financial assets at fair value through profit or loss.

- Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market, other than those that we intend to sell immediately or in the near term, and those that are designated as available for sale upon initial recognition. This category includes special government bonds, receivables from MOF, special PBOC bills, and Huarong bonds.
- Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that we have the positive intent and ability to hold to maturity.
- Available-for-sale assets are non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, receivables or held-to-maturity assets.
- Financial assets at fair value through profit or loss are financial assets held principally for short-term profit-taking purposes or financial assets that are designated by us upon recognition as at fair value through profit or loss.

At initial recognition, all investments are measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset.

In the case of the special government bond, MOF receivable, special PBOC bill, and Huarong bonds categorized as receivables within investment securities, the fair value of these receivables is estimated on the basis of the stated interest rate and including consideration of the relevant special clauses of the instrument evaluated in the absence of any other relevant observable market data.

Subsequent to initial recognition, investments are measured at fair value, without any deduction for transaction costs that may occur on sale or other disposal except for receivables and held-to-maturity assets, which are measured at amortized cost using the effective interest rate method.

Gains or losses from changes in the fair value of the assets at fair value through profit or loss are included in the income statement as they arise. Gains or losses arising from a change in the fair value of available-for-sale assets are recognized directly in equity, except for impairment losses and foreign exchange gains and losses, until the asset is derecognized, at which time the cumulative gains or losses previously recognized in equity will be recognized in the income statement. For investments carried at amortized cost, a gain or loss is recognized in the income statement when the investment is derecognized or impaired.

The fair value of investments securities is based on their quoted market price at the valuation date without any deduction for the transaction costs. If a quoted market price is not available, the fair value of the investment securities is established by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. To the extent practicable, valuation technique makes maximum use of market inputs.

Derivatives

Derivatives include forward, swaps, options, futures and the combination of any of them. At initial recognition, they are stated in the balance sheet at fair value at the inception date and subsequently re-measured at fair value at the valuation date. Fair values are based on quoted market prices, discounted cash flow models and pricing models as appropriate. Fair value of a derivative is included in "Other assets" when it is positive, or "Other liabilities" when it is negative. Changes in the fair value of derivatives are included in other operating income.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their risks and economic characteristics are not closely related to those of the host contract and the hybrid instrument is not carried at fair value through profit or loss.

Except for certain contracts used in fair value hedges by our overseas operations, all derivative transactions are treated as derivatives held for trading with fair value gains or losses recognized in the income statement. Derivatives used in such fair value hedges are hedges of exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. The carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged and the derivative is remeasured at fair value with gains and losses from both being taken to profit or loss.

Valuation of Property and Equipment

Prior to June 30, 2005, property and equipment were stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use.

In preparation for the restructuring into a joint-stock limited company, we engaged independent professional valuers registered in the PRC to conduct valuations of property and equipment at June 30, 2005. The surplus arising upon revaluation was credited to equity.

Following initial recognition at cost, from June 30, 2005, property and equipment (except for leasehold improvements) are carried at revalued amount, which is the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

An annual transfer from the asset revaluation reserve to retained profits is made for the difference between the depreciation amount based on the revalued carrying amount of the assets and the depreciation amount based on the assets, original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal of an asset, any revaluation reserve relating to the particular asset being sold is transferred to retained profits.

Income Taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided using the liability method on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred income tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

RECENT ACCOUNTING PRONOUNCEMENTS

We have not applied the following new and revised IFRSs, that have been issued but are not yet effective, in our financial information:

IAS 1 Amendment	Capital Disclosures

IAS 1 Amendment shall be applied for annual periods beginning on or after January 1, 2007. The revised standards will affect the disclosure regarding qualitative information about our objective, policies and processes for managing capital; quantitative data about what we regard as capital; and compliance with any capital requirements and the consequences of any non-compliance.

IFRS 7	Financial Instruments: Disclosure

IFRS 7 will be effective for annual periods beginning on or after January 1, 2007. IFRS 7 requires more detailed qualitative and quantitative disclosure primarily of fair value information and risk management and, accordingly, will affect the level of details in the disclosures to our financial information.

We do not expect the above to have any significant financial impacts on our financial information.

INDEBTEDNESS

At the close of business on August 31, 2006, being the latest practicable date prior to the printing of this prospectus for the purpose of this indebtedness statement, our indebtedness includes:

- Callable subordinated bonds in the aggregate amount of RMB35,000 million issued through open market bidding in 2005, of which RMB22,000 million have a term of 10 years and RMB13,000 million have a term of 15 years. We have the option to redeem all or part of the bonds at face value prior to their maturity dates; and

- Notes issued in the aggregate principal amount of US$400 million (with a carrying value of RMB2,958 million), maturing on September 16, 2009.

In addition, as of August 31, 2006, we had deposits from customers, amounts due to banks and other financial institutions, certificates of deposits issued, balances under repurchase agreements, credit commitments, acceptances, issued letters of guarantee and letters of credit, other commitments and contingencies, including outstanding litigation, that arise from our ordinary course of business.

Except as otherwise disclosed in this prospectus, we did not have at the close of business on August 31, 2006 any outstanding mortgages, charges, debentures or other loan capital (issued or agreed to be issued), bank overdrafts, loans, liabilities under acceptance or other similar indebtedness, hire purchase and finance lease commitments or any guarantees or other material contingent liabilities.

The Directors have confirmed that there has not been any material change in the indebtedness or contingent liabilities of our bank since August 31, 2006.

RULES 13.11 TO 13.19 OF THE HONG KONG LISTING RULES

We confirm that we are not aware of any circumstances which will trigger disclosure requirements under Rule 13.11 to Rule 13.19 of the Hong Kong Listing Rules.

PROFIT FORECAST FOR THE YEAR ENDING DECEMBER 31, 2006

All statistics set forth in the table below do not give effect to the A Share Offering and are based on the assumption that (i) the Global Offering is completed and (ii) the over-allotment option for the Global Offering is not exercised.

Forecast consolidated profit attributable to equity holders(1)	not less than RMB47,200 million
Forecast earnings per share	
(a) pro forma basis(2)	RMB0.16 (HK$0.16)
(b) weighted average basis(3)	RMB0.17 (HK$0.17)

(1) The bases and assumptions on which the profit forecast has been prepared are set out in Appendix IV to this prospectus.

(2) The calculation of the forecast earnings per share on a pro forma basis is based on the forecast consolidated profit attributable to equity holders for the year ending December 31, 2006, and a weighted average of 300,044,723,024 shares assumed to be issued and outstanding during the year ending December 31, 2006. The weighted average of 300,044,723,024 shares is calculated based on the 248,000,000,000 shares issued and outstanding as of December 31, 2005, the 24,184,737,403 shares issued in aggregate on April 28, 2006 upon completion of the investment by Goldman Sachs, Allianz and American Express, the 14,324,392,623 shares issued on June 29, 2006 upon completion of the investment by the SSF and the 28,312,800,000 H shares to be issued pursuant to the Global Offering assuming that the Global Offering had been completed on January 1, 2006. The forecast consolidated profit attributable to equity holders for the year ending December 31, 2006 is based on the audited consolidated results for the six months ended June 30, 2006 and a forecast of the consolidated results for the six months ending December 31, 2006. Had effect been given to the A Share Offering in this calculation, the forecast earnings per share on a pro forma basis would have been RMB0.15 (HK$0.15), based on the assumption that the 13,000,000,000 A shares newly issued in the A Share Offering had been issued on January 1, 2006 (assuming the over-allotment option for the A Share Offering is not exercised).

(3) The calculation of the forecast earnings per share on a weighted average basis is based on the forecast consolidated profit attributable to equity holders for the year ending December 31, 2006 and a weighted average of 276,851,497,819 shares issued and outstanding during the year. This calculation assumes that the 28,312,800,000 H shares newly issued in the Global Offering were issued on October 27, 2006. Had effect been given to the A Share Offering in this calculation, the forecast earnings per share on a weighted average basis would have been RMB0.17 (HK$0.17), based on the assumption that the 13,000,000,000 A shares newly issued in the A Share Offering were issued on October 24, 2006 (assuming the over-allotment option for the A Share Offering is not exercised).

DIVIDEND POLICY

Our shareholders' general meeting decides whether to pay any dividends and in what amount based on our results of operations, cash flow, financial condition, capital adequacy ratios, future prospects, statutory and regulatory restrictions on the payment of dividends by us and other relevant factors. Under the PRC Company Law and our articles of association, all of our shareholders have equal rights to dividends and distributions. We will pay dividends out of our net profit only after we have fully covered our accumulated losses, if any, and have made the following appropriations:

- appropriations to the statutory surplus reserve equivalent to 10% of our net profit less any accumulated losses, as determined under PRC GAAP; no further appropriations to the statutory surplus reserve are required once this reserve reaches an amount equal to 50% of our registered capital; and
- appropriations to a discretionary surplus reserve as approved by the shareholders in our shareholders' meeting.

In addition, according to recent MOF guidelines, financial institutions, including us, are required to maintain a general reserve not less than 1% of the year-end balance of their risk-bearing assets prior to making a dividend distribution. This general reserve will constitute a part of the financial institution's reserves. The MOF has recommended that financial institutions take the necessary steps to satisfy this requirement by the end of 2008 but, in any event, no later than the end of 2010. At an extraordinary general meeting of shareholders on July 31, 2006, our shareholders approved our dividend policies. To comply with MOF's guidelines by the end of 2010, we will appropriate 20% of our net profit as general reserve prior to the completion of the Global Offering or the A Share Offering, whichever is earlier, and 20% to 30% of our net profit as general reserve after the completion of the Global Offering or the A Share Offering, whichever is earlier.

Under PRC law, dividends may be paid only out of distributable profits. Distributable profits means, as determined under PRC GAAP or IFRS, whichever is lower, the net profits for a period, plus the distributable profits or net of the accumulated losses, if any, at the beginning of such period, less appropriations to statutory surplus reserve (determined under PRC GAAP), general reserve, and discretionary surplus reserve (as approved by our shareholders meeting). Any distributable profits that are not distributed in a given year are retained and available for distribution in subsequent years. However, ordinarily we will not pay any dividends in a year in which we do not have any distributable profits in respect of that year. The payment of any dividends by us must also be approved at a general meeting of shareholders. Holders of our H shares will be entitled to receive dividends in proportion to their shareholdings.

The CBRC has the discretionary authority to restrict any bank that has a capital adequacy ratio below 8% or a core capital adequacy ratio below 4%, or that has violated certain other PRC banking regulations, from paying dividends or other forms of distributions. See "Regulation and Supervision—PRC Regulation and Supervision—Capital Adequacy—CBRC Supervision of Capital Adequacy" and "Regulation and Supervision—PRC Regulation and Supervision—Principal Regulators—The CBRC." At June 30, 2006, we had a capital adequacy ratio of 10.74% and a core capital adequacy ratio of 8.97%.

At an extraordinary general meeting of shareholders on April 28, 2006, our board of directors recommended and our shareholders approved a cash dividend to the MOF and Huijin in the amount of RMB3,537 million for the year ended December 31, 2005.

At extraordinary general meetings of shareholders on July 31, 2006 and September 22, 2006, respectively, our board of directors recommended, and our shareholders approved, the following dividend distributions and policies:

- in respect of the six months ended June 30, 2006, the declaration of a cash dividend in the aggregate amount of RMB18,593 million to our existing shareholders, including the MOF, Huijin, Goldman Sachs, Allianz, American Express and SSF. The amount of this dividend is equal to our distributable profits (as defined under PRC law and described above, which contemplated the appropriations of a statutory surplus reserve and a general reserve that amounted to 10% and 20%, respectively, of our net profits) for the six months ended June 30, 2006. Such cash dividend will be proportionally allocated in accordance with the number of our shares held by these shareholders at June 30, 2006 and the number of days each shareholder respectively held such shares during the six months ended June 30, 2006;
- in respect of the period from July 1, 2006 to the date immediately preceding the completion of the Global Offering or the A Share Offering, whichever is earlier, or, the Special Dividend Period, the declaration of a cash dividend to our existing shareholders, namely, the MOF, Huijin, Goldman Sachs, Allianz, American Express and the SSF, in an

aggregate amount equal to our distributable profits (as defined under PRC law and described above, which contemplates the appropriations of a statutory surplus reserve and a general reserve that amount to 10% and 20%, respectively, of our net profits) for the Special Dividend Period. Such amount will be determined through a special audit of the net profits for the period from July 1, 2006 to the end of the month in which the Global Offering or the A Share Offering is completed, whichever is earlier, or, the Special Audit Period, prorated according to the actual number of days in the Special Dividend Period as a percentage to the Special Audit Period. These prorated net profits in the Special Dividend Period are referred to as the "Special Dividend Period Net Profits" in this section. In addition, our shareholders' meeting has authorized our chairman of the board or our president to, individually or jointly, make adjustments to the ending date of the Special Audit Period to reflect changes in the completion date of the Global Offering or the A Share Offering. The declaration of this dividend, which is currently estimated to be RMB9,559 million, will be disclosed through public announcements in the PRC and Hong Kong; and

- in respect of the period from the date of completion of the Global Offering or the A Share Offering, whichever is earlier, to December 31, 2006, the declaration of a cash dividend to all of our eligible shareholders. Such amount will be equal to 45% of the difference, as determined under PRC GAAP or IFRS, whichever is lower, between the audited net profits for the year ending December 31, 2006 and the sum of the audited net profits for the six months ended June 30, 2006 and the Special Dividend Period Net Profits.

In respect of each of the years ending December 31, 2007 and 2008, our board currently contemplates a dividend distribution in an amount between 45% and 60% of our net profit as determined under PRC GAAP or IFRS, whichever is lower, for the relevant year.

If, following the completion of the Global Offering or the A Share Offering, whichever is earlier, our distributable profits increase as a result of the granting of certain tax exemptions, the additional distributable profits will be allocated among all of our shareholders, including our existing shareholders and all other shareholders, pursuant to the dividend policies approved by our shareholders on July 31, 2006 and September 22, 2006, respectively.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following information regarding our unaudited pro forma adjusted consolidated net tangible assets is prepared based on our consolidated net tangible assets at June 30, 2006, as derived from the Unaudited Pro Forma Financial Information, the text of which is set forth in Appendix III to this prospectus, adjusted as described below. The following information has been prepared for illustrative purposes only and, as a result, may not be an accurate reflection of our financial position.

The following table has been prepared to show the effect on our consolidated net tangible assets as at June 30, 2006 as if the Global Offering was completed on June 30, 2006.

	Consolidated net tangible assets attributable to equity holders as at June 30, 2006(1)	Estimated net proceeds from the Global Offering(2)	Unaudited pro forma adjusted consolidated net tangible assets attributable to equity holders(3)	Unaudited pro forma adjusted consolidated net tangible assets per share(4)	
	(in millions of RMB)			RMB	HK$
Based on the offer price of HK$2.56 per H share	322,700	71,440	394,140	1.25	1.23
Based on the offer price of HK$3.07 per H share	322,700	85,771	408,471	1.30	1.28

(1) Our consolidated net tangible assets attributable to equity holders as of June 30, 2006 is compiled based on the Accountants' Report set out in Appendix I to the prospectus, which is based on our audited consolidated net assets attributable to equity holders as of June 30, 2006 of RMB325,373 million with an adjustment for the intangible assets of RMB2,673 million as of June 30, 2006.

(2) Our estimated net proceeds from the Global Offering are based on (i) the offer price of HK$2.56 per H share and HK$3.07 per H share and (ii) the assumption that there are 28,312,800,000 newly issued H shares in the Global Offering (assuming the over-allotment option for the Global Offering is not exercised), and after deduction of the underwriting fees and other related expenses payable by us.

(3) Our unaudited pro forma adjusted consolidated net tangible assets attributable to equity holders do not take into account the effect of the profit for the period from and including July 1, 2006 to the date immediately preceding the date of the Global Offering and the distribution of such profit to our shareholders.

(4) Our unaudited pro forma adjusted consolidated net tangible assets per share are arrived at after the adjustments referred to in note (2) above and on the basis that 314,821,930,026 shares are issued and outstanding following the completion of the Global Offering and that the over-allotment option for the Global Offering is not exercised. If the over-allotment option is exercised in full, these per share values will increase. Had effect been given to the A Share Offering in this calculation, our unaudited pro forma adjusted consolidated net tangible assets per share would have been HK$1.28 or RMB1.30 based on the offer prices of HK$2.56 per H share and RMB2.60 per A share and HK$1.35 or RMB1.37 based on the offer prices of HK$3.07 per H share and RMB3.12 per A share. This calculation is based on the assumption that there were 13,000,000,000 newly issued A shares in the A Share Offering (assuming the over-allotment option for the A Share Offering is not exercised) and the resulting net proceeds (after deduction of the estimated underwriting fees and other related expenses payable by us) of RMB33.0 billion (based on the offer price of RMB2.60 per A share) and RMB39.6 billion (based on the offer price of RMB3.12 per A share) from the A Share Offering.

(5) Details of the valuation of our properties as at August 31, 2006 are set out in Appendix V to this prospectus. The unaudited net book value of our properties as at August 31, 2006 was not substantially different from the valuation of our properties as included in Appendix V to this prospectus.

A dividend of RMB18,593 million from the distributable profits at June 30, 2006 was proposed and subsequently approved in the extraordinary general meeting of shareholders on July 31, 2006. Had it been permissible to include this dividend in the above calculation, the unaudited pro forma adjusted consolidated net tangible assets per share would have been reduced to HK$1.17 or RMB1.19 based on the offer price of HK$2.56 per H share and HK$1.22 or RMB1.24 based on the offer price of HK$3.07 per H share.

NO MATERIAL ADVERSE CHANGE

Our directors confirm that, other than as disclosed in this prospectus, there has been no material adverse change in our financial or trading position since June 30, 2006.

WORKING CAPITAL

Rule 8.21A(1) and paragraph 36 of Part A of Appendix 1A of the Hong Kong Listing Rules require this prospectus to include a statement by our directors that, in their opinion, the working capital available to our bank is sufficient. Rule 8.21A(2) of the Hong Kong Listing Rules further 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 that the issuer's solvency and capital adequacy are subject to prudential supervision by another regulatory body. We are of the view that the concept of "working capital" does not apply to banking businesses such as ours and that such a statement would not provide significant information for our investors. 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. In view of the above, pursuant to Rule 8.21A(2) of the Hong Kong Listing Rules, we are not required to include a working capital statement from our directors in this prospectus.