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In 2005, the Chinese economy continued to expand, with GDP growing 9.9% and the consumer price index rising by 1.8%. With the liberalisation of both interest rates and exchange rates and surplus liquidity in the money market, we have been facing new challenges in the management of assets and liabilities. We have responded to these market changes by actively expanding our business and continuously enhancing management processes, achieving steady growth in assets, liabilities and profit before tax.

Unless otherwise specified, all business and financial data contained in this section is based on the consolidated figures of the Group.

INCOME STATEMENT ANALYSIS

We recorded profit before tax of RMB 55,364 million in 2005, representing an increase of RMB 4,165 million or 8.1% compared to that of 2004. The increase was attributable to the increase in net interest and net fee and commission income outweighing the increase in general and administrative expenses and provisions for impairment losses. Net profit reached RMB 47,096 million, a slight decrease of 4.0% compared to the previous year, and net profit attributable to shareholders amounted to RMB 47,103 million, largely as a result of an increase in income tax following the expiry on 30 June 2005 of the Bank's tax exemption status granted as part of the Bank's restructuring. Excluding the tax exemption effect, net profit for 2005 actually increased by RMB 5,681 million, or 16.9% compared to that of 2004 on the same basis.

Net interest income

Net interest income was RMB 116,551 million, representing an increase of RMB 15,063 million, or 14.8% against 2004, and the net interest margin was 2.78%, 4 basis points lower than that of 2004.

The table below shows the average balances of assets and liabilities, related interest income or expense, and average rates of interest.

	2005			2004		
	Average balance	Interest Income/ expense	Average Yield/ cost (%)	Average Balance	Interest Income/ expense	Average Yield/ cost (%)
	(In millions of RMB, except percentages)					
Assets						
Total loans and advances to customers	**2,357,586**	**127,105**	**5.39**	2,137,002	110,603	5.18
Investments	**1,263,384**	**36,379**	**2.88**	991,627	28,196	2.84
Balances with central banks	**408,599**	**6,675**	**1.63**	339,378	6,119	1.80
Amounts due from banks and non-bank financial institutions	**160,524**	**3,442**	**2.14**	123,361	2,027	1.64
Others	**—**	**—**	**—**	7,958	251	3.15
Total interest-earning assets	**4,190,093**	**173,601**	**4.14**	3,599,326	147,196	4.09
Total allowances for impairment losses	**(60,531)**	**—**	**—**	(57,379)	—	—
Non-interest-earning assets	**153,330**	**—**	**—**	240,745	—	—
Total assets/total interest income	**4,282,892**	**173,601**	**4.05**	3,782,692	147,196	3.89
Liabilities						
Deposits from customers	**3,757,636**	**52,084**	**1.39**	3,332,966	43,051	1.29
Amounts due to banks and non-bank financial institutions	**164,590**	**2,920**	**1.77**	110,748	1,805	1.63
Subordinated bonds issued	**39,907**	**1,850**	**4.64**	8,758	414	4.73
Others	**6,828**	**196**	**2.87**	6,136	438	7.14
Total interest-bearing liabilities	**3,968,961**	**57,050**	**1.44**	3,458,608	45,708	1.32
Non-interest-bearing liabilities	**72,182**	**—**	**—**	58,698	—	—
Total liabilities/total interest expense	**4,041,143**	**57,050**	**1.41**	3,517,306	45,708	1.30
Net interest income		**116,551**			101,488	
Net interest spread			**2.70**			2.77
Net interest margin			**2.78**			2.82

Interest income

Interest income was RMB 173,601 million, representing an increase of RMB 26,405 million, or 17.9% against 2004, which was attributable to growth in the loan and investment portfolios, and rising interest rates during the year.

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Interest income from loans and advances to customers

The table below shows the average balance, the interest income and average yield of each component of loans and advances to customers.

	2005			2004		
	Average balance	**Interest income**	**Average yield (%)**	Average balance	Interest income	Average yield (%)
	(In millions of RMB, except percentages)					
Corporate loans	**1,723,111**	**96,679**	**5.61**	1,578,513	85,669	5.43
Personal loans	**429,193**	**23,781**	**5.54**	394,363	19,222	4.87
Discounted bills	**171,815**	**5,304**	**3.09**	132,270	4,839	3.66
Overseas operations	**33,467**	**1,341**	**4.01**	31,856	873	2.74
Total loans and advances to customers/total interest income	**2,357,586**	**127,105**	**5.39**	2,137,002	110,603	5.18

Interest income from loans and advances to customers increased by RMB 16,502 million, or 14.9% against 2004. The average balances of corporate loans, personal loans, discounted bills and overseas operations increased by 9.2%, 8.8%, 29.9% and 5.1% respectively. The change in loan volume contributed RMB 12,014 million to the increase in interest income.

Yields on corporate and personal loans rose in line with the increase in the People's Bank of China ("PBOC") benchmark rates in October 2004, and further increase in the yield on personal loans was recorded as a result of the suspension of the preferential mortgage rates in March 2005. The effect was partially offset by a fall in the yield on discounted bills because of increased market competition, and led to an overall increase of 21 basis points in average interest yield and contributed RMB 4,488 million to the increase in the interest income from loans and advances to customers.

Interest income from investments

Interest income from investments increased by RMB 8,183 million, or 29.0%, primarily due to the increase in the average balance of investments of RMB 271,757 million.

The average yield on the investment portfolio marginally increased by 4 basis points, due to the increase in the yield on the foreign currency portfolio following rises in the US Federal Reserve rates, as offset by the decrease in the yield on the RMB investment portfolio following fund inflows to the PRC government bond and money markets as a result of PBOC's lowering of the interest rate for surplus reserves, and the decrease in the yield on special government bond of RMB 49.2 billion from 7.2% to 2.25% since 1 December 2004, as part of the Bank's restructuring plan.

Interest expense

Interest expense for the year was RMB 57,050 million, representing an increase of RMB 11,342 million, or 24.8% over the previous year, primarily due to increased customer deposits and higher interest rates.

Deposits from customers have historically been the Bank's primary source of funding, and interest expense on deposits from customers represented 94.2% and 91.3% of the total interest expense for 2004 and 2005 respectively. Due to strong growth in disposable income as a result of the rapidly developing economy, lack of alternative investment channels and the PBOC's increase of the benchmark interest rates for time deposits since October 2004, the average balance of customer deposits increased by 12.7% compared to that of 2004. Meanwhile, due to the widening interest spread between time and demand deposits, the balance of time deposits increased faster than that of demand deposits and as at 31 December 2005, time deposits represented 44.6% of total customer deposits, 3.3% higher than that as at the end of 2004, thus the average cost on deposits went up by 10 basis points.

Net interest margin and net interest spread

In 2005, the net interest margin and the net interest spread decreased slightly by 4 basis points and 7 basis points to 2.78% and 2.70% respectively.

As a result of the PBOC's increase of the benchmark interest rates for both lending and deposits in October 2004, the average yield of loans and advances to customers increased by 21 basis points, which was greater than that of the average cost on deposits from customers by 11 basis points mainly due to the delayed repricing of time deposits. However, the proportion of average loans to total average interest-earning assets decreased from 59.4% in 2004 to 56.3% in 2005, and other interest-earning assets with lower yields, such as investments, represented a greater proportion of the total average interest-earning assets. Accordingly, the increase in cost of fund on interest-bearing liabilities outweighed the increase in yield on interest-earning assets. As a result, the net interest spread decreased by 7 basis points. Meanwhile, due to the proceeds from the IPO in October 2005, the increase in the average balance of interest-earning assets was greater than that of the average balance of interest-bearing liabilities, which partially offsets the effect of narrower net interest spread and helped maintain a relatively stable net interest margin.

Net fee and commission income

	For the year ended 31 December	
	2005	2004
	(In millions of RMB)	
Fee and commission income		
Bank card fees	**2,618**	2,316
Remittance, settlement and accounts management fees	**2,116**	1,486
Agency fees from securities, foreign currency dealing and insurance services	**1,927**	1,472
Commission on trust business	**946**	702
Consultancy and advisory fees	**848**	732
Guarantee fees	**290**	233
Payment and collection services fees	**246**	192
Others	**270**	219
Subtotal	**9,261**	7,352
Fee and commission expenses	**(806)**	(881)
Net fee and commission income	**8,455**	6,471

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In 2005, net fee and commission income amounted to RMB 8,455 million, an increase of RMB 1,984 million, or 30.7% compared to the previous year, as a result of the strategic development of fee and commission based business.

Bank card income reached RMB 2,618 million, an increase of RMB 302 million, or 13.0% compared to that of 2004, which was mainly attributable to the increase in transaction volumes as the card business continued to expand in China.

Remittance, settlement and account management fees amounted to RMB 2,116 million, an increase of RMB 630 million, or 42.4% compared to that of 2004, primarily due to larger transaction volumes of foreign currency settlements, as well as the charging of maintenance fees on customer deposit accounts with small balances in 2005.

Agency fees from securities, foreign currency dealing and insurance services amounted to RMB 1,927 million, an increase of RMB 455 million, or 30.9%, compared to that of 2004, mainly due to larger transaction volumes of underwriting for government bonds, and agency services for funds and insurance, as well as more foreign currency transactions accompanying the reform of the RMB exchange rate mechanism during the year.

Net loss arising from foreign currency dealing

We recorded a net loss in foreign currency dealing in 2005, primarily due to the effect of the appreciation of the RMB on the translation of USD denominated assets. This loss was substantially reduced by the foreign exchange derivatives utilised by us to hedge such risks.

General and administrative expenses

	For the year ended 31 December	
	2005	2004
	(In millions of RMB)	
Staff costs	**27,298**	22,171
Property and equipment expenses	**10,552**	12,094
Business tax and surcharges	**7,401**	6,459
Other general and administrative expenses	**12,841**	12,695
Total general and administrative expenses	**58,092**	53,419
Cost-to-income ratio	**45.13%**	46.87%

In 2005, general and administrative expenses amounted to RMB 58,092 million, an increase of RMB 4,673 million, or 8.7%, compared to that of 2004, primarily due to the increase in staff costs which accounted for 47.0% (2004: 41.5%) of total general and administrative expenses. The increase in staff costs was driven by the increase in salaries, bonuses and welfare payments, which was in line with the improvement in our pre-tax financial performance.

Property and equipment expenses decreased by 12.8%, primarily due to lower depreciation expenses as a result of the diminished impact of the revaluation of our property and equipment in connection with the Bank's restructuring.

In 2005, we further strengthened the cost control measures and managed to keep the increase of other general and administrative expense items at a relatively low level compared to the large increase in operating income.

As a result, the cost-to-income ratio improved, and decreased from 46.87% in 2004 to 45.13%.

Provisions for impairment losses

	For the year ended 31 December	
	2005	2004
	(In millions of RMB)	
Loans and advances to customers	**13,706**	6,109
Available-for-sale securities	**948**	1,876
Property and equipment	**293**	406
Others	**311**	967
Total provisions for impairment losses	**15,258**	9,358

The charge for impairment losses on loans and advances to customers experienced a significant increase compared to 2004. Please refer to "Loan Quality Analysis" for details. In recent years, we have made greater efforts to dispose of idle assets, debt-to-equity swaps and repossessed assets, and the balances of these assets decreased accordingly. At the same time we enhanced control over the quality of newly acquired assets, therefore the allowances for other impairment losses decreased compared to that of 2004.

Income tax

The charge for income tax for the year amounted to RMB 8,268 million, an increase of RMB 6,109 million compared to that of 2004. In addition to higher taxable income, the increase was a combined effect of the following factors:

- Expiry of the Bank's tax exemption status as at 30 June 2005. As part of the Bank's restructuring, income taxes of RMB 15,473 million and RMB 7,848 million were exempted for the year ended 31 December 2004 and for the six months ended 30 June 2005 respectively.

- As part of the Bank's restructuring, from 1 January 2005 interest income derived from the corporate bond of RMB 247 billion issued by China Cinda Asset Management Company specifically to the Bank ("Cinda bond") was no longer exempt from income tax, leading to a tax liability for the year of RMB 1,834 million.

- Tax authorities raised the Bank's tax deduction limit for salary expenses in the year of 2005, which reduced income tax liability arising from non-tax-deductible staff costs from RMB 3,906 million in 2004 to RMB 403 million in 2005 accordingly.

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BALANCE SHEET ANALYSIS

Assets

As at 31 December 2005, total assets amounted to RMB 4,585,742 million, an increase of RMB 675,822 million, or 17.3% compared with 2004. Loans and advances and investments continued to be the largest classes of assets and contributed to more than 75% of the increase in the total assets. Not only did customer deposits increase significantly during the year, but the Bank also received a large amount of additional capital from its IPO, leading to a substantial increase in overall funds. We further strengthened control on granting of new loans in 2005, and in order to maintain the profitability of available funds, we increased our investment in debt instruments, leading to a higher increase in investments compared to that in loans.

The following table shows the composition of the total assets as at the balance sheet dates:

	As at 31 December 2005		As at 31 December 2004	
	Amounts	**% of total**	Amounts	% of total
	(In millions of RMB, except percentages)			
Loans and advances to customers	**2,458,398**		2,227,426	
Allowances for impairment losses	**(63,085)**		(53,864)	
Net loans and advances to customers	**2,395,313**	**52.2**	2,173,562	55.6
Investments	**1,413,871**	**30.8**	1,107,636	28.3
Cash and balances with central banks	**480,136**	**10.5**	399,366	10.2
Net amounts due from banks and non-bank financial institutions	**190,108**	**4.2**	112,531	2.9
Other assets[1]	**106,314**	**2.3**	116,825	3.0
Total assets	**4,585,742**	**100.0**	3,909,920	100.0

1. *Consist of property and equipment, deferred tax assets and other assets.*

Loans and advances to customers

As at 31 December 2005, loan and advances to customers amounted to RMB 2,458,398 million, an increase of RMB 230,972 million, or 10.4% compared with 2004.

The following table shows an analysis of loans and advances to customers by loan type.

	As at 31 December 2005		As at 31 December 2004	
	Amounts	**% of total**	Amounts	% of total
	(In millions of RMB, except percentages)			
Corporate loans	**1,775,791**	**72.2**	1,624,419	72.9
Discounted bills	**194,122**	**7.9**	157,275	7.1
Personal loans	**453,889**	**18.5**	412,275	18.5
Overseas operations	**34,596**	**1.4**	33,457	1.5
Total loans and advances to customers	**2,458,398**	**100.0**	2,227,426	100.0

Corporate loans have remained the largest component of our loan portfolio. As at 31 December 2005 corporate loans amounted to RMB 1,775,791 million, an increase of RMB 151,372 million, or 9.3% compared with 2004. Strong growth was seen in fixed assets loans, especially in infrastructure and real estate development loans, where we historically has had a competitive advantage.

The following table sets forth the components of the corporate loans by product type.

	As at 31 December 2005		As at 31 December 2004	
	Amounts	**% of total**	Amounts	% of total
	(In millions of RMB, except percentages)			
Working capital loans	**908,688**	**51.2**	893,172	55.0
Fixed asset loans				
Infrastructure loans	**550,851**	**31.0**	451,558	27.8
Real estate development loans	**190,977**	**10.8**	147,240	9.1
Technical improvement loans	**98,153**	**5.5**	99,923	6.1
Corporate mortgage loans	**2,434**	**0.1**	1,746	0.1
Subtotal	**842,415**	**47.4**	700,467	43.1
Others[1]	**24,688**	**1.4**	30,780	1.9
Total corporate loans	**1,775,791**	**100.0**	1,624,419	100.0

1. *Primarily consist of factoring, overdrafts, trade finance facilities and on-lending loans.*

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Discounted bills continued to grow, with an increase of 23.4% compared with 2004, as a result of our strategic focus on the business in recent years due to the historically low losses associated with it. However, the rate of increase was lower than in previous years due to increased market competition. Discounted bills, as a proportion of total loans and advances to customers, increased by 0.8 percentage points in 2005.

Personal loans recorded growth of 10.1% or RMB 41,614 million in 2005, comprising 18.5% of our total loan portfolio. Residential mortgages are still the key driver of growth, although the 12.5% growth in the mortgage portfolio in 2005 is lower than that in previous years as a result of the PRC government's macroeconomic controls on the property market. Personal consumption loans showed a decline of RMB 3,359 million, due to a decrease in automobile loans resulting from a tightening of our credit policies and adverse conditions in the automobile industry.

The table below illustrates the components of the personal loans by product type:

	As at 31 December 2005		As at 31 December 2004	
	Amounts	**% of total**	Amounts	% of total
	(In millions of RMB, except percentages)			
Residential mortgage loans	**348,219**	**76.7**	309,401	75.0
Personal consumption loans	**60,150**	**13.3**	63,509	15.4
Others	**45,520**	**10.0**	39,365	9.6
Total personal loans	**453,889**	**100.0**	412,275	100.0

As at 31 December 2005, the largest exposure to an individual borrower was 6.7% and the largest line of credit to a borrowing group was 10.7% of the Bank's regulatory capital (total capital base after deductions). These ratios are within the approved limits of CBRC.

Investments

In accordance with IFRS, our investments are classified into receivables, held-to-maturity debt securities, available-for-sale debt and equity investments, and debt securities at fair value through profit and loss (primarily consisting of debt securities held for trading purpose). For the purpose of the following analysis, we have classified the investment portfolio into the following categories:

	As at 31 December 2005		As at 31 December 2004	
	Amounts	**% of total**	Amounts	% of total
	(In millions of RMB, except percentages)			
Debt instruments	**958,470**	**67.8**	657,423	59.4
Receivables	**443,729**	**31.4**	433,858	39.2
Equity instruments	**11,672**	**0.8**	16,355	1.4
Total investments	**1,413,871**	**100.0**	1,107,636	100.0

With the increase in customer deposits, we invested surplus funds in debt instruments, especially PBOC bills. The balance of debt instruments increased by RMB 301,047 million, or 45.8% compared to the previous year.

The table below sets out debt instruments by issuer:

	As at 31 December 2005		As at 31 December 2004	
	Amounts	**% of total**	Amounts	% of total
	(In millions of RMB, except percentages)			
Government	**263,870**	**27.5**	256,354	39.0
Policy banks	**162,938**	**17.0**	128,324	19.5
Central banks	**328,827**	**34.3**	120,124	18.3
Banks and non-bank financial institutions	**143,614**	**15.0**	66,524	10.1
Public sector entities	**41,268**	**4.3**	69,038	10.5
Others	**17,953**	**1.9**	17,059	2.6
Total debt instruments	**958,470**	**100.0**	657,423	100.0

Receivables are financial assets (other than derivatives) with fixed or determinable payments that are not quoted in an active market or actively traded and are classified as neither held-to-maturity nor available-for-sale. Receivables primarily include the Cinda bond of RMB 247,000 million, non-transferable bills with nominal values of RMB 63,354 million and RMB 21,000 million issued specifically to the Bank by the PBOC, and a non-negotiable bond with a nominal value of RMB 49,200 million issued by the MOF. All these bills and bonds are related to the Bank's restructuring.

Equity instruments primarily consist of equity holdings obtained through debt-to-equity swaps. The decline was primarily due to disposals during the year.

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Liabilities

As at 31 December 2005 liabilities amounted to RMB 4,298,065 million, an increase of RMB 583,696 million, or 15.7% compared with 2004.

The following table lists the composition of total liabilities as at the balance sheet dates.

	As at 31 December 2005		As at 31 December 2004	
	Amounts	**% of total**	Amounts	% of total
	(In millions of RMB, except percentages)			
Deposits from customers	**4,006,046**	**93.3**	3,491,121	94.0
Amounts due to banks and non-bank financial institutions	**164,524**	**3.8**	112,039	3.0
Subordinated bonds issued	**39,907**	**0.9**	39,896	1.1
Other liabilities[1]	**87,588**	**2.0**	71,313	1.9
Total liabilities	**4,298,065**	**100.0**	3,714,369	100.0

1. *Consist of amounts due to central banks, certificates of deposit issued, current tax liabilities, deferred tax liabilities, and other liabilities and provisions.*

Deposits from customers

We maintain an extensive customer base and deposits from customers continue to be our major source of funding. Continuous expansion in China's economy, strong growth in public disposable income, limited alternative investment channels and rising interest rates for time deposits are the main reasons for the continued increase in the balance of RMB denominated deposits, especially in time deposits.

The following table shows customer deposits by product type:

	As at 31 December 2005		As at 31 December 2004	
	Amounts	**% of total**	Amounts	% of total
	(In millions of RMB, except percentages)			
Corporate deposits				
Demand deposits	**1,474,483**	**36.7**	1,389,028	39.8
Time deposits	**619,564**	**15.5**	444,482	12.7
Subtotal	**2,094,047**	**52.2**	1,833,510	52.5
Personal deposits				
Demand deposits	**708,608**	**17.7**	633,302	18.1
Time deposits	**1,188,813**	**29.7**	1,013,998	29.1
Subtotal	**1,897,421**	**47.4**	1,647,300	47.2
Overseas operations	**14,578**	**0.4**	10,311	0.3
Total deposits from customers	**4,006,046**	**100.0**	3,491,121	100.0

As a result of the wider difference between the time and demand deposit rates following the adjustment to PBOC benchmark rates in October 2004, time deposits increased by 24.0%, while demand deposits grew at a lower rate of 7.9%.

Shareholders' funds

	As at 31 December	
	2005	2004
	(In millions of RMB)	
Share capital	**224,689**	194,230
Share premium	**42,091**	—
General reserve	**10,332**	—
Retained earnings	**4,783**	1,048
Other reserves	**5,684**	238
Total shareholders' equity	**287,579**	195,516

The increase in share capital and share premium were mainly due to the IPO in October 2005. Please refer to note 27 (e) of "Financial Statements" for details of the general reserve included as part of the shareholders' equity set aside in 2005.

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LOAN QUALITY ANALYSIS

In determining the classification of the loan portfolio, we apply a series of criteria that are derived from CBRC guidelines. For details of the criteria, please refer to the "Risk Management — Credit Risk Management".

Distribution of loans by grading

The following tables set forth, as of the dates indicated, the distribution of our loan portfolio by five-category loan classification, under which NPLs are classified as substandard, doubtful or loss.

	As at 31 December 2005		As at 31 December 2004	
	Amount	**% of total**	Amount	% of total
	(In millions of RMB, except percentages)			
Normal	**2,072,969**	**84.4**	1,768,578	79.4
Special mention	**290,960**	**11.8**	371,468	16.7
Substandard	**42,456**	**1.7**	51,430	2.3
Doubtful	**45,457**	**1.8**	31,059	1.4
Loss	**6,556**	**0.3**	4,891	0.2
Total loans and advances to customers	**2,458,398**	**100.0**	2,227,426	100.0
Non-performing loan ratio	**3.84%**		3.92%	

As we further strengthened our credit risk management and internal control, overall loan quality was improved, which was reflected in the decrease of both the NPL ratio from 3.92% at the end of 2004 to 3.84% at the end of 2005, and the ratio of special mention loans to total loans from 16.7% to 11.8% over the same period.

Distribution of loans and advances to customers and NPLs by product type

The following table sets forth, as of the dates indicated, loans and advances to customers as well as NPLs by product type.

	As at 31 December 2005			As at 31 December 2004		
	Loans and advances	NPLs	% of NPLs to loans[1]	Loans and advances	NPLs	% of NPLs to loans[1]
	(In millions of RMB, except percentages)					
Corporate loans						
Working capital loans	**908,688**	**62,755**	**6.9**	893,172	59,635	6.7
Fixed asset loans	**842,415**	**20,560**	**2.4**	700,467	19,095	2.7
Others[2]	**24,688**	**2,339**	**9.5**	30,780	2,559	8.3
Subtotal	**1,775,791**	**85,654**	**4.8**	1,624,419	81,289	5.0
Discounted bills	**194,122**	**—**	**—**	157,275	2	—
Personal loans						
Residential mortgage loans	**348,219**	**4,605**	**1.3**	309,401	3,442	1.1
Personal consumption loans	**60,150**	**2,221**	**3.7**	63,509	1,204	1.9
Others[3]	**45,520**	**1,842**	**4.0**	39,365	1,323	3.4
Subtotal	**453,889**	**8,668**	**1.9**	412,275	5,969	1.4
Overseas operations	**34,596**	**147**	**0.4**	33,457	120	0.4
Total	**2,458,398**	**94,469**	**3.84**	2,227,426	87,380	3.92

1. *Calculated by dividing non-performing loans in each category by total loans in that category.*
2. *Primarily consist of factoring, overdrafts, trade financing and on-lending loans.*
3. *Primarily consist of individual commercial property mortgage loans, education loans and credit card overdrafts.*

Corporate loans increased by RMB 151,372 million over the previous year. Despite the increase in the balance of corporate NPLs by RMB 4,365 million, the NPL ratio fell by 0.2 percentage points, of which the NPL ratio of fixed asset loans dropped by 0.3 percentage points while that of working capital loans rose by 0.2 percentage points over the previous year.

Personal NPLs increased by RMB 2,699 million in 2005 with the personal NPL ratio at 1.9% at the end of the year. The increase in residential mortgage NPL ratio was mainly because some property developers were unable to raise sufficient funds to continue their property projects due to macroeconomic measures by the

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PRC government, and as a result a greater number of borrowers did not repay their mortgage loans. The personal consumption NPLs increased by RMB 1,017 million compared to 31 December 2004, which was mainly due to the increase of defaults on automobile loans.

Distribution of corporate loans and NPLs by industry

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

	As at 31 December 2005				As at 31 December 2004			
	Loans and advances	% of total loans	NPLs	% of NPLs to loans[1]	Loans and advances	% of total loans	NPLs	% of NPLs to loans[1]
	(In millions of RMB, except percentages)							
Corporate loans								
Manufacturing	433,104	17.6	25,967	6.0	396,631	17.8	22,511	5.7
Transportation, storage and postal services	278,532	11.3	5,512	2.0	236,033	10.6	2,643	1.1
Production and supply of electric power, gas and water	265,647	10.8	7,918	3.0	231,590	10.4	8,969	3.9
Property development	256,396	10.4	17,611	6.9	244,036	10.9	19,341	7.9
Construction	86,855	3.5	4,443	5.1	82,139	3.7	4,850	5.9
Water, environment and public utility	75,959	3.1	1,320	1.7	54,814	2.5	1,331	2.4
Education	63,395	2.6	644	1.0	51,309	2.3	553	1.1
Wholesale and retail	63,179	2.6	7,926	12.5	56,863	2.5	7,165	12.6
Telecommunications, computer services and software	60,304	2.5	1,494	2.5	72,163	3.2	1,057	1.5
Mining	49,332	2.0	717	1.5	52,637	2.4	813	1.5
Others[2]	143,088	5.8	12,102	8.5	146,204	6.6	12,056	8.2
Subtotal	1,775,791	72.2	85,654	4.8	1,624,419	72.9	81,289	5.0
Discounted bills	194,122	7.9	—	—	157,275	7.1	2	—
Personal loans	453,889	18.5	8,668	1.9	412,275	18.5	5,969	1.4
Overseas operations	34,596	1.4	147	0.4	33,457	1.5	120	0.4
Total loans and advances to customers	2,458,398	100.0	94,469	3.84	2,227,426	100.0	87,380	3.92

1. *Calculated by dividing non-performing loans in each category by total loans in that category.*
2. *Primarily consist of leasing and commercial services; health care, social security and social welfare; culture, sports and entertainment; government agencies and non-government organizations.*

NPLs to the production and supply of electric power, gas and water and property development industries decreased by RMB 1,051 million and RMB 1,730 million, with the NPL ratios dropping 0.9 percentage points and 1 percentage point, respectively. We have intensified our efforts in recovering NPLs in these industries, and has gradually reduced our exposure to high risk borrowers and shifted to higher quality customers with better fundamentals.

The increase in the NPL ratio of loans to the manufacturing industry was primarily due to the fact that under the PRC government's macroeconomic control measures, some companies ran into operating difficulties and therefore were unable to meet their due loan obligations.

The main reason for the increase in the NPL ratio in the transportation, storage and postal services industries from 1.1% to 2.0% was due to the adjustment of toll fee policies in certain areas, which left the repayment schedules of borrowers in the transportation industry mismatched with their expected cash flows, leading to overdue loans and downgrades.

Distribution of loans by collateral

The following table sets forth, as of the dates indicated, the distribution of the loan portfolio by the type of collaterals.

	As of 31 December 2005		As of 31 December 2004	
	Loans and advances	**% of total**	Loans and advances	% of total
	(In millions of RMB, except percentages)			
Loans secured by monetary assets	**202,546**	**8.2**	163,452	7.3
Loans secured by tangible, other than monetary assets	**935,706**	**38.1**	790,675	35.5
Guaranteed loans	**633,180**	**25.8**	662,237	29.8
Unsecured loans	**686,966**	**27.9**	611,062	27.4
Total Loans and advances to customers	**2,458,398**	**100.0**	2,227,426	100.0
Less: Allowances for impairment losses	**(63,085)**		(53,864)	
Net loans and advances to customers	**2,395,313**		2,173,562	

As at 31 December 2005, the proportion of loans secured by tangible assets increased by 3.5 percentage points as we have strengthened credit risk management by requiring more borrowers to provide tangible assets for security. Accordingly, the proportion of guaranteed loans decreased from 29.8% in 2004 to 25.8% in 2005.

FINANCIAL OVERVIEW

Changes to the allowances for impairment losses on loans and advances to customers

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

	2005	2004
	(In millions of RMB)	
As at 1 January	**53,864**	54,395
Charge for the year[1]	**13,706**	6,109
Unwinding of interest on impaired loans[2]	**(725)**	(520)
Transfers out[3]	**(93)**	(432)
Write-offs	**(3,784)**	(6,342)
Recoveries of loans and advances previously written off	**117**	654
As at 31 December	**63,085**	53,864

1. *Represents the amount of the net allowances for impairment losses recognised in the consolidated income statement.*
2. *Represents the amount of increase in the present value of a loan after impairment due to the passage of time, and was recognised as interest income.*
3. *Consist of releases from the loan loss allowances resulting from (i) the net transfer between NPLs and repossessed assets; and (ii) the net transfer between NPLs and equity holdings obtained through debt-to-equity swaps.*

The charge for impairment losses on loans and advances increased by RMB 7,597 million, as a result of increased NPLs balances and change in composition of NPLs portfolios. The balance of NPLs increased by RMB 7,089 million over the previous year. In addition, the proportions of substandard, doubtful and loss loans were 45.0%, 48.1% and 6.9% at the end of 2005 while such proportions at the end of 2004 were 58.9%, 35.5% and 5.6% respectively.

CAPITAL ADEQUACY

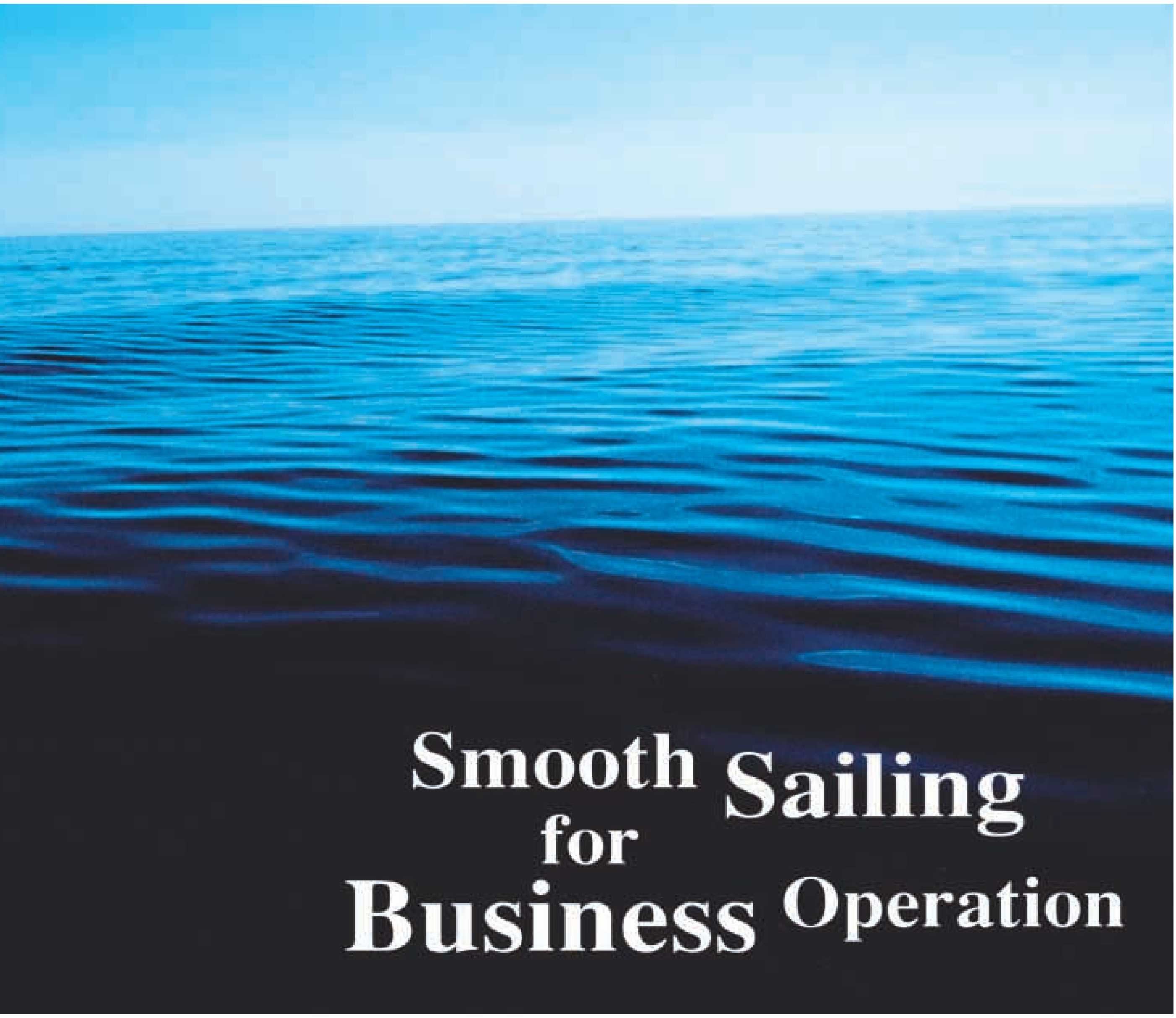
According to the *Regulation Governing Capital Adequacy of Commercial Banks* issued by CBRC which came into effect on 1 March 2004, our capital adequacy ratio (excluding the Bank's subsidiaries) increased by 2.28 percentage points as at 31 December 2005. The increase was primarily due to the rise in the capital base following the IPO.

The following table sets forth, for the periods indicated, the information related to capital adequacy ratio.

	As at 31 December	
	2005	2004
	(In millions of RMB, except percentages)	
Core capital adequacy ratio[1]	**11.08%**	8.57%
Capital adequacy ratio[2]	**13.57%**	11.29%
Components of capital base		
Core capital:		
Paid up ordinary share capital	**224,689**	194,230
Reserves	**59,520**	514
Total core capital	**284,209**	194,744
Supplementary capital:		
General provision for doubtful debts	**24,563**	22,256
Term subordinated bonds	**40,000**	40,000
Total supplementary capital	**64,563**	62,256
Total capital base before deductions	**348,772**	257,000
Deductions: unconsolidated equity investments	**(1,528)**	(1,012)
Total capital base after deductions	**347,244**	255,988
Risk-weighted assets	**2,558,956**	2,267,467

1 *Core Capital adequacy ratio is calculated by dividing the net amount of core capital after deductions of 50% of unconsolidated equity investments by risk weighted assets.*

2 *Capital adequacy ratio is calculated by dividing the total capital base after deductions by risk weighted assets.*

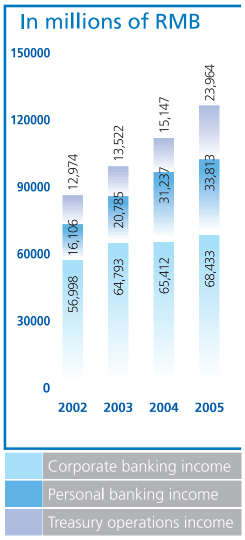

Smooth Sailing
for
Business Operation

BUSINESS OPERATIONS

In implementing our customer-focused and market-oriented culture, we have improved our products and services, operation procedures and management process, driving healthy growth of all major lines of businesses. According to statistics released by the PBOC, as at 31 December 2005 our market share of total loans in PRC was approximately 11.9%, while market share of total deposits was around 13.2%.

Unless otherwise specified, all business and financial data contained in this "Business Operations" section is based on PRC business operations.

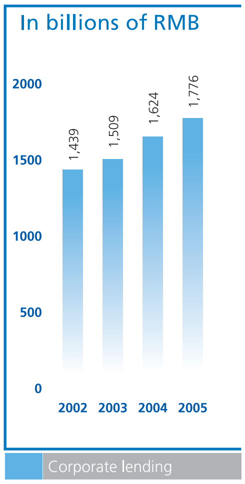
The Bank's principal lines of businesses are corporate banking, personal banking and treasury operations. The chart sets out the Bank's operating income over the previous four years for the respective lines of businesses.

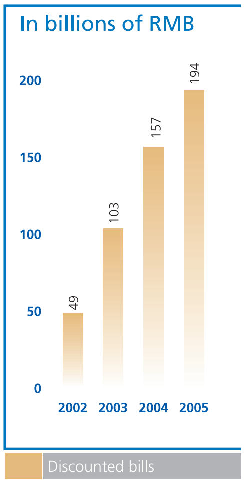


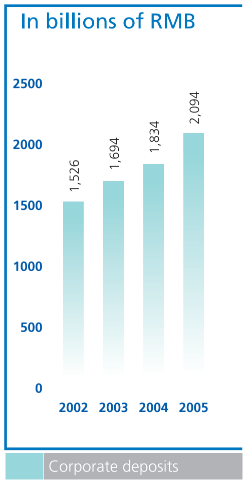
CORPORATE BANKING

We provides a wide range of corporate banking products and services to corporate, government and institutional clients. As at 31 December 2005, balances of corporate loans and discounted bills amounted to RMB 1,775,791 million and RMB 194,122 million respectively, representing 72.2% and 7.9% of the total loan portfolio. Interest income from corporate lending amounted to RMB 96,679 million, an increase of 12.9% against that of RMB 85,669 million in 2004. Deposits from corporate banking customers were RMB 2,094,047 million, representing 52.2% of total deposits. Net fee and commission income from corporate banking was RMB 3,176 million, representing 37.6% of the total for the year ended 31 December 2005.

The following charts show the four years' development of the business.







Corporate lending

Our corporate lending products include fixed asset, working capital and other loans. Other loans include factoring, overdraft, trade financing and on-lending loans. As at 31 December 2005 fixed asset loans amounted to RMB 842,415 million, representing 47.4% of the total corporate loan portfolio, an increase of 4.3% compared to that as at 31 December 2004. We strengthened our leading position as a provider of medium and long-term fixed asset loans, particularly in the areas of infrastructure and real estate development loans. In the area of infrastructure loan, the Bank has a market share of 28.1% as at the end of 2005.

We targeted as areas for development the energy, transportation, and petrochemical industries, which we see as having large growth potential. At the same time we have controlled exposure to industries with excess capacity, such as the steel, electrolysed aluminium and cement industries, while gradually reducing loans to declining industries.

Since September 2005 we have introduced several new loan products specifically designed for small and medium-sized enterprises ("SMEs"), including:

- Road of Growth — which provides a package of efficient and on-going credit services to qualified small-sized enterprises; and
- Quick Finance — which provides fast and effective secured lending to small-sized enterprises with valid collaterals.

Discounted bills

We generally purchase discounted bills, including both bank acceptance bills and commercial acceptance bills, with a remaining maturity of no more than six months. We see this business as having good potential for growth, especially in bank acceptance bill discounting, and have allocated more resources to this business accordingly. In September 2005 we launched a new product, "Immediate Discount for Bank Acceptance", which has greatly reduced the time required by the bill holders to finance their bills through us. In 2005, a

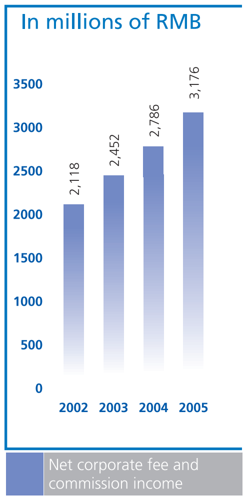
BUSINESS OPERATIONS

new bill system was put into operation across the Bank which has significantly improved the efficiency and quality of the service. At the end of 2005, the balance of discounted bills was RMB 194,122 million, representing a growth of 23.4% during the year.

Corporate deposits

Demand deposits represented a greater proportion of total corporate deposits primarily because corporate customers often need to maintain high liquidity. At the end of 2005 corporate deposits increased by 14.2% against that as at the end of 2004 to RMB 2,094,047 million, among which demand deposits amounted to RMB 1,474,483 million, and time deposits amounted to RMB 619,564 million. The increase in the interest rate of time deposits as well as interest spread between time and demand deposits have led to substantial growth in corporate time deposits, which accounted for 29.6% (2004: 24.2%) of the total corporate deposits as at 31 December 2005.

Corporate fee and commission based services



The chart sets out the net corporate fee and commission income over the past four years.

Efforts have been made to expand the range and quality of fee and commission based products and services. Through optimising operating procedures and offering better products, we continued to increase share of total corporate fee and commission income, especially in consulting, remittance and settlement services. Net income was RMB 3,176 million, an increase of RMB 390 million or 14.0% over that in 2004.

On the institution agency side, we maintained our leading positions in payment processing services on behalf of public finance and independent custodial services for securities settlement funds, with market shares standing at 57.2% and 75.0% respectively on 31 December 2005. We also installed new business systems, namely “Smooth Customs” and “Smooth Insurance” to expand the customs agency and insurance agency business.

On the remittance and settlement side, the Bank further developed global treasury service with expanded scope of service and targeted market, and launched new products including “Global Remittance Express”, to satisfy customer demand for timely global settlement. By the end of 2005 the Bank had successfully rolled out its new trade finance system in 19 branches, and approximately 85% of international settlement orders are now processed through this system. The new system has changed the service from a fragmented operation to a centralised one. Based on this system, the Bank officially opened its central Trade Service Centre in Shanghai in January 2006.

On the custodial services side, we obtained regulatory approval in 2005 to extend our custodian services to insurance companies’ equity securities and corporate pension funds. Furthermore, three additional qualified foreign institutional investors (“QFII”) chose our Bank to act as their custodian. As at 31 December 2005, QFII assets under custody amounted to US$550 million. Securities investment funds under custody amounted to RMB 79,623 million, an increase of 58.6% over the previous year. Welfare and pension fund assets under custody increased by 79.7% over the previous year. Operating income from the custodial business reached RMB 123 million, a year-on-year increase of 6.6%.

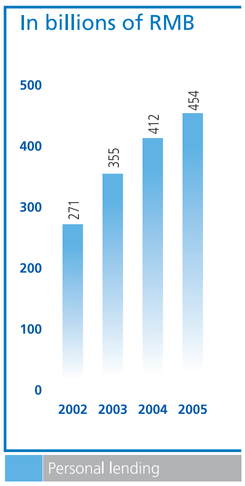
Customer base

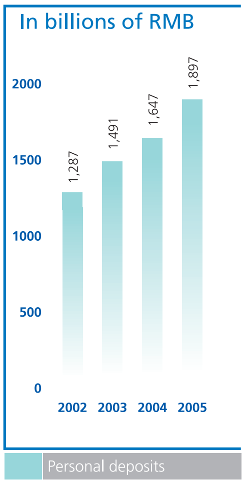
We have extensive business relationships with most of the large business groups and leading companies in China, which includes 98 of the largest 100 enterprises in China by operating income as at 31 December 2005, as ranked by the China Enterprise Confederation and the China Enterprise Directors Association. Corporate customers also include many of China's government agencies and financial institutions as well as a number of Fortune 500 multinational companies operating in China. In 2005, we entered into cooperation agreements with local governments in Inner Mongolia, Sichuan, Shanghai, Hubei, Zhejiang and Hainan and won a number of key state-level infrastructure projects. As of 31 December 2005, we had approximately 65,000 corporate loans and discounted bill customers, and approximately 2.67 million corporate deposit accounts.

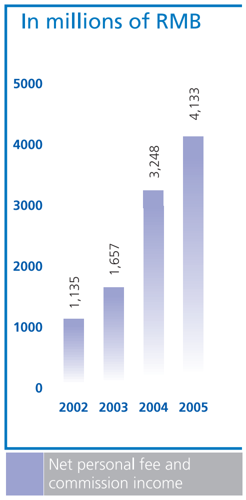
PERSONAL BANKING

We provide a broad range of personal banking products and services, and brands such as "Swift Remit", "Longding Gold", "Happy Investor" and "Profit from Exchange" have gained wide recognition. The expansion of our personal banking business is a key component of our strategic objectives. In 2005, we strengthened promotion of our personal banking products, and rationalised our branch network to provide better service to our customers. As at 31 December 2005, personal loans amounted to RMB 453,889 million, or 18.5% of the total loan portfolio, while personal customer deposits amounted to RMB 1,897,421 million, representing 47.4% of total deposits. Net fee and commission income from personal banking amounted to RMB 4,133 million, representing 48.9% of the total.

The charts below set out the development of personal banking over the past four years.







BUSINESS OPERATIONS

Personal lending

Residential mortgage loans represented 76.7% of the personal lending portfolio as at 31 December 2005, and continued to provide the majority of income from personal lending. The remainder was largely composed of personal credit loans and automobile loans.

The residential mortgage loans balance increased by 12.5% to RMB 348,219 million at the end of 2005. Over the past 18 months the government's measures to dampen speculation in the property market have affected the residential mortgage business, leading to slower growth in new loans and an increase in early repayments of mortgages. Despite these external factors, the mortgage business performed well as a result of our well-recognised brand name and improved operational efficiency and customer service.

In December 2005 the Bank, as a promoter, issued RMB 3,017 million of residential mortgage-backed securities "Jianyuan 2005-1", which was the first asset securitisation in the PRC.

Provident housing fund service

We are licensed to take provident housing fund deposits, and disburse and monitor entrusted provident housing fund mortgages on behalf of the fund authorities. The service serves as a stable source of funding and fee income. The business grew steadily in 2005 and as at the end of 2005 provident housing fund deposits amounted to RMB 142,561 million with a market share of 63.1% and entrusted provident housing fund loans amounted to RMB 141,974 million with a market share of 53.7%.

Bank card business

As at 31 December 2005, 3.12 million credit cards issued by us were in circulation, representing an increase of 1.47 million over the preceding year. Spending through the credit cards in 2005 reached RMB 18,754 million, an increase of 184% from 2004.

In 2005, we marketed and developed new card products, including the "Dragon Auto Card" and the "University Dragon Card", as well as allowing customers in major cities to pay selected card bills in instalments.

The debit card business also experienced rapid growth, with the number of cards in circulation increasing by over 11% to 166 million, including 620,000 "Happy Investor" personal wealth management cards. Both spending amounts and fee and commission income from debit cards reached a record high in 2005. Total spending amounts reached RMB 125,563 million, an increase of 58.5% compared to 2004, and fee and commission income was RMB 2,450 million, an increase of 27.7% compared to 2004.

According to PBOC information, we were the second biggest bank card issuer in China as at 31 December 2005, with 18.1% of market share.

Personal deposits

Personal deposits provide the major source of funding for the Bank. To improve competitiveness, we launched a number of innovative personal banking products based on the demand of the market, among which "All Personal Call Deposit in One Account" provides convenient value-added wealth management services. Personal deposits maintained their rapid growth and increased by 15.2% to RMB 1,897,421 million as at 31 December 2005.

As at 31 December 2005, we had 325 million personal deposit accounts, including 146 million active personal deposit accounts (those with a balance of RMB 100 or above). We have targeted high net-worth customers among our current customer base, and by the end of 2005 we had established relationships with 1.066 million of these customers, an increase of 120% compared to 31 December 2004, and the financial assets of these customers managed by us amounted to RMB 342.4 billion.

Personal fee and commission based services

In addition to card services we also provide a wide range of personal products and services, such as wealth management, remittance and securities agency services. In 2005, we put great effort into enhancing personal remittance and securities agency services, and also developed new products such as wealth management, settlement, and safe deposit box business, which brought about rapid development to the business. Net income from personal fee and commission based services was RMB 4,133 million, an increase of RMB 885 million or 27.2% over the previous year.

In 2005, we launched new products such as "Profit from Interest" and "Lucky Bankbook", and were the first among the PRC commercial banks to enable personal customers to trade gold under the product named "Longding Gold".

Marketing

At present, we conduct marketing activities mainly through our branch network, as supplemented by specialised sales centres such as wealth management centres and personal banking centres. As at 31 December 2005, we established a multi-level service marketing system which consists of 3 wealth management centres, 343 personal banking centres and 6,646 personal wealth management outlets. We have also expanded our team of retail customer managers and the number of the managers reached 15,527 at the end of 2005.

BUSINESS OPERATIONS

TREASURY OPERATIONS

Operational strategies

During 2005 treasury funds in RMB and foreign currencies increased significantly. With effective risk control and sound investment strategies, the treasury business recorded impressive results, with operating income from both domestic and overseas operations amounting to RMB 23,964 million, an increase of 58.2% compared to that of the previous year.

In light of the rising US Federal Reserve rate and short-term yields of US dollars, we increased our foreign currency investments in long-term debt securities, floating rate bonds, mortgage-backed securities and asset-backed securities. Our investment strategies were driven by our forecast of interest rate movements in long term debt securities. Through utilizing bonds, options and repurchase agreements, we increased yields on our investments.

On the RMB side, we have enlarged our lending in the money market to put excess funds in assets with higher returns. In order to maintain the investment yield, we also developed other fund utilisation channels; increased our investment in bonds; and, increased our investment in PBOC bills to shorten our investment portfolio duration in response to rising interest rates.

Results

In 2005 the RMB treasury business experienced a steady increase in transaction volume. Placements of RMB 82.5 billion were made, ranking third in the China inter-bank market, and bond repurchase and reverse repurchase transaction volume reached RMB 2,258.3 billion, ranking second in the China inter-bank repurchase market. The Bank underwrote RMB 572.2 billion of government and quasi-government bonds, subordinated bonds, PBOC bills and short-term financial notes in the primary market. The total transaction volume in the secondary bond market amounted to RMB 153.7 billion.

The short-term financial notes underwriting business was launched in May 2005. By 31 December 2005, according to market information, we had underwritten notes totalling RMB 42.1 billion, ranking first among the PRC banks.

Bonds under custody were RMB 10.8 billion and the transaction volume amounted to RMB 29.1 billion. The volume of foreign currency exchange on behalf of customers and trade-related foreign currency exchange and settlement reached US$96.7 billion, an increase of 15% over the previous year, while the volume of derivative transactions conducted on behalf of customers reached US$4.7 billion.

On 21 July 2005, the PBOC reformed the RMB exchange rate regime. Accordingly, we have improved RMB and foreign currency trading system by offering customers intra-day price quotes and launching RMB-foreign exchange swap business. The Bank was among the first to participate in inter-bank foreign exchange forward trading and to become a market maker.

Business expansion

We have made progress in the innovation of our treasury products in 2005, including the development and expansion of products such as mortgage-backed securities, asset-backed securities, bond resale and repurchase, credit spread transactions as well as gold consignment, gold transaction for personal accounts and retail bullion sales and purchases. We are also exploring multi-currency capital allocation, entrusted asset management and credit derivative products.

Wealth management business in foreign currencies continued its rapid development in 2005. Retail products linked to gold prices and foreign exchange rates were launched, and stock index linked or credit linked products are also being considered. Due to market expectations of an appreciation of the RMB, we offered RMB linked foreign currency wealth management products and forward products to corporate and institutional customers.

OVERSEAS BUSINESS

We have overseas branches in Hong Kong, Singapore, Frankfurt, Johannesburg, Seoul and Tokyo. There are also representative offices in London and New York.

At the end of 2005, our overseas operations had total assets of approximately RMB 68,561 million and accounted for 1.5% of the Bank's total assets, while profit before tax was RMB 635 million, an increase of 3.1% over the previous year.

The principal activities of the overseas operating outlets are to provide trade financing and other lending products. They have been actively participating in their local financial and debt securities markets as well as acting as leading or participating banks in syndicated loan transactions. They also provide settlement and trade finance services to local Chinese companies and other local SMEs. The Hong Kong branch has launched retail and wealth management services to achieve resources integration with our subsidiary China Construction Bank (Asia) Limited (formerly Jian Sing Bank Limited). The Singapore branch provides investment banking services to small and medium-sized Chinese enterprises to enable them to access the Singaporean capital market, while Frankfurt branch has played an important role in assisting the Head Office in conducting treasury activities as the only operating branch of the Bank in Europe.

DISTRIBUTION CHANNELS AND PRODUCT PRICING

Our distribution network mainly consists of branches, sub-branches, sub-operating offices and deposit-taking offices. As at the end of 2005, the Bank had 13,977 domestic outlets, including the Head Office and 38 tier-one branches.

In 2005, we continued to develop our self-service banking business. As at 31 December 2005 we had 881 self-service banking centres, an increase of 392 over the previous year. We ranked second among the big four Chinese commercial banks with 15,120 ATMs. In 2005 we successfully implemented a new generation of our self-service business transaction platform. The new platform has standardised service interfaces, processes and versions of the software, expanded the capabilities of self-service facilities, and improved management's real-time control over facility breakdowns and transaction status.

In 2005 we have strengthened our electronic banking capabilities, which greatly increased our distribution capability. The internet banking system has been successfully integrated into various systems, including the core system, which made it possible to offer a variety of web-based financial and information services to a range of customers. As at 31 December 2005, we had 31.39 million electronic banking customers, an increase of around 100% over 2004. The number of clients using web-based banking service amounted to 8.45 million. The VIP service system served 419 targeted clients and 1.32 million clients with equity investment funds with us. "95533" call centre served 18.55 million clients, an increase of 8.52 million over the previous year.

BUSINESS OPERATIONS

In 2005, cooperating with two major PRC mobile communication operators, we launched mobile phone banking and short messaging services to our customers. With the launch of WAP and BREW mobile phone banking and improved mobile phone on-line trading system, we are able to provide full mobile services to satisfy a range of needs of mobile phone banking clients. By the end of 2005, there were 4.38 million mobile phone customers, an increase of 539% over the previous year.

Pricing controls in the PRC banking industry are being gradually liberalised, enabling us to be more flexible in setting prices according to the assessment of risk and return. We determine a bank-wide benchmark prices for our products and services after considering various factors, including cost, credit and other risks, expected rates of return, market conditions, and competitors' pricing. Branches are allowed to set their own prices, within defined ranges, around these benchmark prices to consolidate their customer base, enlarge market share and increase operating income.

INFORMATION TECHNOLOGY

In September 2005 we successfully completed the data consolidation centre for our core business processing systems. By centralising the processing of major banking products and account data, we have strengthened our ability to monitor business operations across the Bank on a real-time basis, and provide ample information for management decision making.

As part of our efforts to improve the risk and financial management systems, in 2005 we upgraded our credit risk rating and early warning ("CRREW") system and renamed it as "Internal Rating System". We also completed the development of a platform to perform risk analysis on corporate customers, including an economic capital allocation and loan pricing model.

We completed the major part of our disaster recovery data centre, and established data backup and disaster recovery capabilities with the southern production data centre. In accordance with the project plan, full disaster recovery capabilities for the southern and northern data centres mainframe systems and the associated business continuity plan will come into use in 2006.

Internally, information security standards and regulations are applied to out-of-office working, desktop systems and internal information management to enhance security management and computer monitoring throughout the Bank.

EMPLOYEES

As of 31 December 2005, we had 300,288 employees, a decrease of 10,351 over the previous year. We have been able to reduce the number of employees by enhancing the efficiency of the distribution channels, streamlining the organisational structure and business processes, and rationalizing personnel distribution. In addition, to increase accountability and mobility within the organisational structure, we have implemented an internal ranking system for employees. We have also refined our evaluation systems to promote performance-based compensation.

We attach great importance to personnel training and development. Through recruitment, training, job rotation and secondment to banks overseas, the knowledge and experience of employees has been developed. In addition to formal training at in-house centres and colleges, we have also developed an online learning system to offer a platform and support for the career development of employees.

RISK MANAGEMENT

The Bank is primarily subject to credit risk, liquidity risk, market risk and operational risk. The Bank's goals are to (i) identify, measure, assess, monitor and manage all significant risks on a timely basis; (ii) achieve the balance between risks and returns; (iii) improve its risk management framework to be more comprehensive and complete; (iv) further strengthen internal controls; and (v) continue to apply economic value added method to enhance its risk management level and capability.

The Bank's reforms of its risk management function in 2005 included the creation of the post of Chief Risk Officer and vertical reporting lines for risk management functions in pilot branches. Based on feedback from its pilot sub-branches, the Bank improved its risk management reform plan, which will be put into operation throughout the Bank in 2006.

CREDIT RISK MANAGEMENT

Credit risk is the risk that a borrower or counterparty fails to meet its obligations in accordance with agreed terms. The Bank is exposed to credit risk primarily through its loan portfolio, investment portfolio, guarantees and commitments, and other on- and off-balance sheet credit exposures. In order to manage the exposure to credit risk, the Bank has adopted standardised credit extension policies and procedures which are regularly reviewed and updated by the risk management department in conjunction with other relevant departments. The credit extension process for both corporate loans and personal loans can be broadly divided into three stages: (i) credit origination and analysis, (ii) credit approval, and (iii) fund disbursement and post-disbursement management.

Corporate loans

Credit origination and analysis

The first stage in the lending process includes:

- Credit risk rating by using CRREW
- Independent appraisal of collaterals
- Evaluation of the underlying project
- Production of an overall loan evaluation report

Credit approval

All credit extensions are required to be approved at a meeting organised by the credit approval department at the branch level in accordance with the required credit authorisation limit.

Each branch is subject to two types of credit authorisation limit: (i) the maximum total committed credit line to any single borrower and (ii) the maximum amount for any individual loan with a term of one year or more. Credit authorisation limits of tier-one branches are reviewed by head office at least once every year. Unless otherwise authorised by tier-one branches, tier-two and lower-level branches generally are permitted to approve only (i) draw-downs of previously approved credit facilities and (ii) fully secured loans.

Post-disbursement management

The relationship managers and risk managers are responsible for the on-going monitoring of loans to detect any signs of potential delinquency at an early stage and to facilitate prompt remedial action. The Bank focuses on the factors that might adversely affect the borrower's ability to repay and primarily gathers information from the borrowers and other sources, such as taxation authorities and on-site inspections. In addition, the risk management department conducts an overall assessment of the quality of the loan portfolio on a monthly basis and submits a report to management at a higher level. Any event which could significantly affect a borrower's ability to repay is required to be reported immediately. If signs of a possible loan delinquency are detected, the relationship managers are required to conduct an immediate review of the credit quality and repayment ability of the borrower concerned, and to take appropriate preventive measures, which may include on-site inspections, the enforcement of security interests or third-party guarantees, loan restructuring and loan collection, as applicable.

Loan classification

In determining the classification of the loan portfolio, the Bank applies a series of criteria that are derived from CBRC guidelines. These criteria are designed to assess the likelihood of repayment by the borrower and the collectibility of principal and interest on the loan. The loan classification criteria focus on a number of factors, to the extent applicable, including (i) the borrower's ability to repay the loan, based on such factors as the borrower's financial condition, profitability and cash flow; (ii) the borrower's repayment history; (iii) the borrower's willingness to repay; (iv) the net realisable value of any collateral; and (v) the prospect for support from any financially responsible guarantor. In applying these criteria, the Bank also takes into account the length of time for which payments of principal or interest on a loan are overdue and other factors in classifying the loans.

Loans are initially classified by the relationship manager, and subsequently reviewed by the risk management department, and confirmed by an inter-departmental team, with participation from the risk management department with the corresponding authorisation. Loan classification information is reported to the head office once every ten days.

Administration of non-performing assets

The special assets resolution ("SAR") department administers corporate NPLs. The SAR department seeks to maximise recovery of non-performing assets in a cost-effective manner. After non-performing assets are transferred to the SAR department, the relevant business department continues to share information regarding the non-performing assets and collaborates with the SAR department to determine the best recovery solution. The Bank writes off a loan classified as loss once the Bank has exhausted all means of collection and recovery and the circumstances surrounding the borrower meet the standards for write-offs

RISK MANAGEMENT

established by the Bank. Loan write-offs must be approved by the relevant tier-one branch or the head office in line with the relevant authorisation limit. Even after the Bank has written off a loan, it generally continues to pursue recovery efforts.

Personal loans

Personal loan managers initiate the credit extension process by interviewing applicants and reviewing brief questionnaires completed by applicants. The Bank has adopted standardised credit approval procedures for personal loans and assesses applicants based on, among other things, their income, credit record and repayment ability. The Bank primarily relies on its credit evaluations as the basis for extending personal credit, but also considers credit information on individuals provided by the national credit information system recently implemented by the PBOC. Application information and credit recommendations formulated by personal loan managers are submitted to a dedicated credit approval officer for review and approval. Personal loans are generally granted at tier-two or lower level branches.

In monitoring personal loans, the Bank focuses on the borrower's repayment ability and changes in the value and quality of the collateral. After a loan becomes overdue, the Bank actively monitors the loan and begins collection efforts, including conducting on-site inspections. In classifying personal loans, the Bank performs a matrix analysis generally based on the number of overdue days and security type. Non-performing personal loans are administered by business departments and the SAR department. The procedures for administering non-performing personal loans are similar to those for corporate loans.

Credit risk management for treasury operations

Treasury operations are exposed to credit risk through investment activities and inter-bank lending activities. The Bank's RMB-denominated investment portfolio primarily consists of debt securities and receivables issued by the PRC government and other domestic issuers. The Bank's foreign currency-denominated investment portfolio primarily consists of investment-grade bonds. The Bank establishes credit ceilings on a counterparty and geographical region basis and reviews them annually.

Enhancements to credit risk management

The Bank has improved and will continue to improve its credit risk management. In accordance with the development and the characteristics of credit products and services, the Bank has revised its credit manual and issued new credit risk management policies and reengineered credit operation standards and procedures across the Bank. The new credit authorisation policy reflects our principles of risk based management and alignment of authorisation limits with management ability.

With respect to personal loans, the Bank has improved its ongoing risk monitoring ability through the introduction of an improved personal credit data base to the credit management information system ("CMIS"). The Bank has also enhanced its quality of controls on personal mortgage loans by strengthening its review procedures of borrowers' financial information, the value of collaterals, collection efforts, and management of collaterals.

In addition, the Bank is strengthening management of non-performing loans and repossessed assets through such measures as improving the co-ordination between the SAR department, the risk management department and other relevant departments; monitoring the loan classifications of restructured loans more closely and assessing the market value of collaterals and repossessed assets more regularly.

Credit risk management information technology

Based on CMIS, the Bank used both qualitative and quantitative measures to grade its corporate customers. At present the CRREW system is used to effectively monitor the quality of the Bank's corporate loan portfolio.

During the year, the Bank completed its phase one internal rating system and made positive progress in credit rating on corporate customers. The measurement of systemic risk by industry, geographical area and product was further refined, and delivery of client credit structure analysis and related statements was realised. The Bank also initiated efforts to build its personal credit rating scorecard system.

LIQUIDITY RISK MANAGEMENT

Liquidity risk is the risk of being unable to liquidate a position in a timely manner at a reasonable price to fund the Bank's obligations. The Bank is exposed to liquidity risk primarily in the funding of lending, trading and investment activities, as well as in the management of liquidity positions.

The Bank manages liquidity risk mainly by monitoring asset and liability maturities to ascertain its capability to meet all payment obligations, and to ensure compliance with relevant PRC regulations on liquidity management. The asset and liability management committee formulates policies on liquidity risk management and reviews liquidity risk management reports regularly. The asset and liability management department is responsible for managing liquidity risk, as well as monitoring the day-to-day management of its liquidity positions.

The Bank has a centralised liquidity management, with the head office acting as the central treasury to provide and accept excess funds to and from branches at an internal fund transfer price according to liquidity positions of the branches. The Bank has surplus deposit reserves with the PBOC and significant holdings in liquid assets such as debt securities held under repurchase agreements, PBOC bills and PRC government bonds, which the Bank may liquidate in the market to meet potential liquidity requirements.

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	As at 31 December 2005						
	Overdue/ repayable on demand	Less than three months	Between three months and one year	Between one and five years	More than five years	undated	Total
				(In millions of RMB)			
Assets							
Cash and balances with central banks	136,808	57,370	—	—	—	285,958	480,136
Amounts due from banks and non-bank financial institutions	11,379	136,422	42,031	276	—	—	190,108
Loans and advances to customers	71,195	332,389	783,035	657,218	551,476	—	2,395,313
Investments							
— Receivables	—	—	30,482	349,457	63,790	—	443,729
— Held-to-maturity debt securities	—	67,346	135,556	315,950	125,126	—	643,978
— Available-for-sale investments	—	17,932	138,310	76,353	79,464	11,672	323,731
— Debt securities at fair value through profit or loss	—	—	828	977	628	—	2,433
Other	2,948	10,161	8,295	12,149	508	72,253	106,314
Total Assets	222,330	621,620	1,138,537	1,412,380	820,992	369,883	4,585,742
Liabilities							
Amounts due to central banks	21	—	—	—	—	—	21
Amounts due to banks and non-bank financial institutions	85,860	50,229	27,814	621	—	—	164,524
Deposits from customers	2,226,495	583,304	904,671	277,301	14,275	—	4,006,046
Certificates of deposit issued	—	420	2,018	2,991	—	—	5,429
Others	28,204	16,474	21,063	11,697	4,700	—	82,138
Subordinated bonds issued	—	—	—	—	39,907	—	39,907
Total liabilities	2,340,580	650,427	955,566	292,610	58,882	—	4,298,065
2005 Long/(short) position	(2,118,250)	(28,807)	182,971	1,119,770	762,110	369,883	287,677
2004 Long/(short) position	(2,118,896)	84,400	239,280	987,298	666,638	336,831	195,551

In 2005, the total long position increased by RMB 92,126 million to RMB 287,677 million. The RMB liquidity ratio was 59.1% and increased by 7.7 percentage points compared to that of 2004; the foreign currency liquidity ratio was 108.7%, an increase of 37.5 percentage points. All liquidity ratios comply with CBRC requirements.

MARKET RISK MANAGEMENT

Market risk is the risk of loss in on- and off-balance sheet positions arising from movements in market prices, including variables such as interest and exchange rates, and equity and commodity prices. As the PRC government gradually liberalises interest rates and exchange rates, and complex derivative financial products and foreign currency transactions become more widely used in the Mainland China, the Bank will be subject to increasing market risk.

In order to centralise market risk management, the Bank has implemented uniform market risk management policies and procedures, and improved its fund transfer pricing (FTP), data management and information management systems. The risk management department is responsible for formulating market risk management policies and overseeing their implementation. The asset and liability management department is responsible for developing procedures to identify, assess, measure and control the Bank's market risks, and formulating and implementing market risk management policies.

The primary tools used in measuring and analysing market risk on bank accounts and trading accounts include but are not limited to value-at-risk (VAR), gap analysis, sensitivity analysis, and stress testing. Business departments have established procedures for regular reporting on market risk management, as well as crisis reporting when large market risk events are encountered. Departments also perform quarterly reviews and analysis on the implementation of risk management policies and investment strategies so as to provide senior management with timely information.

Interest rate risk management

Interest rate risk is the exposure of a bank's financial condition to adverse movements in interest rates. The Bank's primary source of interest rate risk is mismatches in the maturity or repricing periods of the banking portfolio. Maturity mismatches may cause net interest income to be affected by changes in the prevailing level of interest rates. The Bank has begun to measure its exposure to fluctuations in interest rates using gap analysis, which provides a static view of the repricing characteristics of assets and liabilities. The Bank also performs stress testing and scenario analysis on the trading accounts and bank accounts and selected portfolios within them. In addition, the Bank performs duration analysis on debt instruments in investment portfolio to assess the potential price volatility of a bond by measuring its sensitivity to interest rate fluctuations.

RISK MANAGEMENT

	As at 31 December 2005					
	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one and five years	More than five years
	(In millions of RMB)					
Assets						
Cash and balances with central banks	**480,136**	**28,413**	**451,723**	**—**	**—**	**—**
Amounts due from banks and non-bank financial institutions	**190,108**	**—**	**147,801**	**42,031**	**276**	**—**
Loans and advances to customers	**2,395,313**	**86**	**1,028,552**	**1,312,723**	**38,971**	**14,981**
Investments	**1,413,871**	**11,672**	**140,108**	**420,801**	**621,237**	**220,053**
Other	**106,314**	**106,314**	**—**	**—**	**—**	**—**
Total Assets	**4,585,742**	**146,485**	**1,768,184**	**1,775,555**	**660,484**	**235,034**
Liabilities						
Amounts due to central banks	**21**	**—**	**21**	**—**	**—**	**—**
Amounts due to banks and non-bank financial institutions	**164,524**	**—**	**136,089**	**27,814**	**621**	**—**
Deposits from customers	**4,006,046**	**40,789**	**2,770,313**	**905,529**	**276,616**	**12,799**
Certificates of deposit issued	**5,429**	**—**	**4,198**	**527**	**704**	**—**
Other	**82,138**	**82,138**	**—**	**—**	**—**	**—**
Subordinated bonds issued	**39,907**	**—**	**—**	**9,915**	**29,992**	**—**
Total liabilities	**4,298,065**	**122,927**	**2,910,621**	**943,785**	**307,933**	**12,799**
Net gap in 2005	**287,677**	**23,558**	**(1,142,437)**	**831,770**	**352,551**	**222,235**
Accumulated net gap in 2005			**(1,142,437)**	**(310,667)**	**41,884**	**264,119**
Net gap in 2004	195,551	53,124	(1,222,802)	881,076	296,711	187,442
Accumulated net gap in 2004			(1,222,802)	(341,726)	(45,015)	142,427

As at 31 December 2005, the accumulated negative interest rate sensitive gap stood at RMB 310,667 million for all assets and liabilities within one year, with the largest negative gap being that of the less than 3 months period category as interest rate sensitive demand deposits accounted for 54.5% of total deposits from customers. The negative gap narrowed by RMB 31,059 million compared to that at the end of 2004 because the time deposit balance increased while the demand deposit balance as a percentage of total deposit fell by 3.5 percentage points compared to the end of 2004, reflecting a lessened impact on our interest margin should the interest rates rise again. This is a result of rising interest rates since 2004, and the fact that since 2005 the PBOC has allowed corporates to place funds on time deposit for over one year. The accumulated positive gap over one year as at 31 December 2005 increased compared to 31 December 2004 as more resources were allocated to long term investments in response to the reduction of interest rates on surplus deposit reserves with the PBOC, and there was increased demand for long term fixed rate loans.

A periodic interest rate risk reporting mechanism has currently been set up by the Bank, and an interest rate risk and pricing monitoring system has been formed. In 2005, the Bank established a new system for management to review the Bank's liquidity position and interest risk exposure, whereby more accurate information is available more quickly. Since there is a lack of effective tools to manage interest rate risks in RMB money markets, the Bank mainly manages interest rate risk by adjusting transaction volumes and maturity profile.

Foreign exchange risk management

Foreign exchange risk is the exposure of a bank's financial and capital position to adverse movements in exchange rates. The Bank is exposed to exchange rate risk because it holds loans, deposits, securities and financial derivatives that are denominated in currencies other than the RMB. In 2005, the PBOC introduced a series of measures to reform the RMB exchange rate, and as a result the RMB is no longer pegged to the US dollar but subject to a managed floating rate system. Given that there was increasing volatility of the RMB rate range, the Bank was therefore subject to greater exchange rate risk. In order to mitigate the exchange rate risk in the foreign currency transactions on behalf of its customers and on its own account, the Bank in each currency seeked to match the amounts and periods of lending and borrowing on a currency-by-currency basis. In addition, the Bank hedges the open foreign currency positions by entering into currency spot and forward contracts.

The Bank has entered into an option contract with Huijin to hedge the foreign exchange risk arising from the capital of US$22.5 billion received from Huijin on 30 December 2003. For other assets denominated in foreign currencies, the Bank mainly uses swaps to contain the exposure arising from RMB-US$ exchange rate fluctuation.

The Bank is engaged mainly in options, forwards and swaps to reduce its interest rate and exchange rate risks. Specifically, there are foreign exchange options, debt securities options, foreign exchange forwards, foreign exchange swaps and interest rate swaps, as well as derivatives with a combination of the above products.

OPERATIONAL RISK MANAGEMENT

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The Bank's operating units are responsible for assessing their operational risk and implementing related risk management policies and procedures. The risk management department regularly conducts reviews to evaluate the compliance by various departments with the Bank's policies and procedures.

Reporting and monitoring of non-compliance

The Bank has established internal reporting procedures for employee misconduct that adversely affects its business. Under the internal reporting system, data relating to incidents of employee misconduct must be reported to the head office on a periodic basis, and serious cases must be reported to the head office within 24 hours of their discovery. In addition, the Bank is required to report serious cases of employee misconduct to the CBRC.

For the year ended 31 December 2005, 63 criminal offences committed by the Bank's employees were reported to the head office, involving a total amount of RMB 199.32 million. Of these, 17 involved an amount of RMB 1 million or more. These incidents of employee misconduct included, among other things, theft, embezzlement or misappropriation of customers' funds; mishandling of customer deposits and settlement of payment transactions; improper credit extensions; improper accounting; fraud; and acceptance

RISK MANAGEMENT

of bribes. Some of these incidents indicated potential internal control weaknesses at certain branches. Nonetheless, these incidents have not, individually or in the aggregate, had a material adverse effect on the Bank's business, financial condition or results of operations.

During the year, economic and non-economic penalties were imposed on the Bank by the PBOC, CBRC, State Administration of Foreign Exchange ("SAFE") and their affiliated bodies for violations of regulations relating to account management, foreign exchange management, education savings, housing loans and filing of anti-money laundering reports. There were 172 economic penalties totalling RMB 8.9 million. The Bank believes that these economic and non-economic penalties do not pose a material threat to its operations and performance.

The Bank continues to focus on improving its internal controls and training given to employees. The Bank also imposes severe penalties in cases of non-compliance with policies and procedures. In 2005, the Bank took the following key initiatives:

- Creation of a market and operational risk management sub-department within the risk management department, with responsibility for management of operational risks, and the development of related policies and processes across the Bank to facilitate the strategic development of the Bank.

- Provision of legal assistance and consultancy services to our business operation by legal affairs department.

- Establishment of an independent compliance department, responsible for compliance with applicable laws and regulations, and the Bank's own policies and procedures.

- Introduction of operational checks and balances among departments and job positions, and a system of centralised job appointments and rotation for key management positions.

- Implementation of policies and procedures to hold officers accountable for the misconduct of employees under their supervision.

- Backup of data from critical data processing systems to reduce operational risk resulting from information technology system failure. The Bank is now in the process of developing a computer disaster recovery centre for the automatic backup of operational data.

- Commencement of collection and analysis of internal operational risk loss data in preparation for the establishment of a database of operational risk loss.

INTERNAL AUDIT

The internal audit department is responsible for auditing and evaluating the internal controls of the business operations, risk profiles and economic accountability of key managers, and proposing improvements to risk management and internal control. Internal audit covers every aspect of financial, operating and management activities.

In 2005, as part of the efforts to increase the independence and authority of the internal audit department, the Bank has introduced a vertical internal audit structure under which the internal audit department reports directly to the board of directors and the audit committee, the president and the board of supervisors. Remuneration, performance appraisal evaluation, and promotion of internal audit personnel across the Bank are determined centrally at the head office. Internal audit departments at branch level have been restructured so as to simplify the reporting line and improve the efficiency.

Internal audit adopts a risk based audit approach. The major areas audited by internal audit during 2005 were major business operations, key procedures in corporate customer deposits, guarantees and commitments, authorisation controls, bank card business, data concentration systems, non-credit assets, head office foreign exchange operations, accountability of management during the tenure, and overseas entities.


An Ocean
of Talents

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The following sets out certain information regarding our directors, supervisors and senior management. Our directors, supervisors and members of senior management all meet the qualification requirements for their respective positions. Their qualifications and appointments have been reviewed and approved by the PRC banking regulatory authorities.

Directors

Mr. Guo Shuqing, aged 49, is chairman of the board of directors and an executive director, and has served as a director since March 2005. Prior to that position, Mr. Guo was deputy governor of the PBOC, director of the SAFE and chairman of Huijin from December 2003 to March 2005. He was deputy governor of the PBOC and director of the SAFE from March 2001 to December 2003, deputy governor of Guizhou Province from July 1998 to March 2001 and secretary general of the State Commission for Economic Restructuring from March 1996 to July 1998. Mr. Guo served as director of the Macro-control System Department of the State Commission for Economic Restructuring from October 1995 to March 1996, director of the General Planning and Experiment Department of the State Commission for Economic Restructuring from May 1993 to March 1996, and deputy director of the Economic Research Centre of the State Planning Commission from July 1988 to May 1993. Mr. Guo is a research fellow and a member of the 10th China People's Political Consultative Congress National Committee. Mr. Guo graduated from Nankai University in 1982 with a bachelor's degree in philosophy, and graduated from the Chinese Academy of Social Sciences with a doctorate degree in law in 1988. Mr. Guo was also a visiting fellow at the University of Oxford from May 1986 to August 1987.

Mr. Chang Zhenming, aged 49, is vice chairman of the board of directors, an executive director, and president, and has served as a director and president since September 2004. As our president, Mr. Chang is in charge of the overall management of our Bank. Mr. Chang joined China Construction Bank in July 2004. Prior to that position, Mr. Chang was executive director and vice president of China CITIC Group from March 2002 to July 2004, executive director and vice president of China International Trust and Investment Corporation, or CITIC, from August 1995 to March 2002, assistant president of CITIC from January 1994 to August 1995, vice president of CITIC Industrial Bank from September 1993 to January 1994, and assistant president of CITIC Industrial Bank from October 1992 to September 1993. Mr. Chang is a senior economist. He graduated from Beijing Second Foreign Language University with a bachelor's degree in Japanese language in 1983, and received his master's degree in business administration from New York College of Insurance in 1992.

Ms. Liu Shulan, aged 60, is an executive director and vice president and has served as a director and vice president since September 2004. Ms. Liu is primarily in charge of our administrative matters. Ms. Liu was vice president of China Construction Bank from February 1992 to September 2004, general manager of the public relations department of China Construction Bank from September 1990 to February 1992, and served concurrently as deputy general manager of Inner Mongolia Autonomous Region Branch of China Construction Bank and general manager of the Inner Mongolia Autonomous Region Branch of China Investment Bank from June 1983 to September 1990. Ms. Liu is a senior economist and graduated from Central Finance College in 1969 with a bachelor's degree in finance.

Mr. Zhao Lin, aged 51, is an executive director and vice president and has served as a director and vice president since September 2004. Mr. Zhao is primarily responsible for overseeing our risk management and information technology matters. Mr. Zhao was vice president of China Construction Bank from September 2002 to September 2004, chief controller of China Construction Bank in charge of its discipline and compliance matters from February 1995 to September 2002, general manager of the Office of General Affairs of China Construction Bank from December 1992 to February 1995, deputy general manager of the Office of General Affairs of China Construction Bank from February 1992 to December 1992, and deputy general manager of China Construction Bank's Hubei provincial branch from February 1991 to February 1992. Mr. Zhao is a senior economist and graduated from Zhongnan University of Finance and Economics in 1986 with a degree in business management and economics.

Mr. Zhu Zhenmin, aged 56, is a non-executive director and has served as a director since September 2004. Prior to that position, Mr. Zhu was director-general of the Tax Bureau of the MOF from December 2003 to September 2004, director-general of the Tax Bureau of the MOF and concurrently director of the General Office of Customs Tariff Commission under the State Council from September 2002 to December 2003, and deputy director-general of the Tax Bureau of the MOF from August 1997 to September 2002. Mr. Zhu graduated from the Central Institute of Finance Administration with a degree in finance in 1987. Mr. Zhu is currently an employee of our substantial shareholder, Huijin.

Mr. Jing Xuecheng, aged 60, is a non-executive director and has served as a director since September 2004. Prior to that position, Mr. Jing was inspector of the Research Bureau of the PBOC from November 2003 to September 2004, deputy director-general of the Research Bureau of the PBOC from January 2002 to November 2003, head of the macroeconomics division of the Office of Central Financial Work Leading Group from June 1999 to January 2002, deputy director-general of the Research Bureau of the PBOC (and deputy director of Finance Institute of the PBOC) from July 1998 to June 1999, and deputy director of the Policy Research Office of the PBOC from July 1996 to July 1998. Mr. Jing is a research fellow and a tutor of doctoral students. He graduated from Jilin Finance and Trade College with a bachelor's degree in finance in 1966, and received his master's degree in finance and economics from Renmin University of China in 1981. Mr. Jing is currently an employee of our substantial shareholder, Huijin.

Ms. Wang Shumin, aged 50, is a non-executive director and has served as a director since September 2004. Prior to that position, Ms. Wang was inspector of the Administration and Inspection Bureau of the SAFE from June 2001 to September 2004, deputy director-general of the Administration and Inspection Bureau of the SAFE from March 1998 to June 2001, deputy director-general of the Balance of Payments Bureau of the SAFE from August 1996 to March 1998, and deputy director-general of the Policy and Law Bureau of the SAFE from July 1994 to August 1996. Ms. Wang is a senior economist and has the qualifications to practice law in China. She currently serves as an arbitrator of China International Economic and Trade Arbitration Commission. She graduated from Zhongnan University of Economics and Law with a bachelor's degree in law in 1982. Ms. Wang is currently an employee of our substantial shareholder, Huijin.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Wang Yonggang, aged 49, is a non-executive director and has served as a director since September 2004. Mr. Wang was a dedicated supervisor of director-general level and director of the Office of General Affairs under the board of supervisors of China Construction Bank from August 2003 to September 2004, dedicated supervisor at deputy director-general level and deputy director of the Office of General Affairs under the board of supervisors of the People's Insurance Company of China and China Reinsurance Company from July 2000 to August 2003, and deputy general manager of the compliance department of the Industrial and Commercial Bank of China from June 1997 to July 2000. Mr. Wang is a certified accountant, a senior accountant, and was appointed by the MOF as an expert consultant on financial management of finance and insurance enterprises in August 1997. He graduated from Heilongjiang Finance Technical College with a degree in infrastructure finance in 1982, and received his master's degree in currency and banking from Northeast University of Finance and Economics in 1997. Mr. Wang is currently an employee of our substantial shareholder, Huijin.

Mr. Liu Xianghui, aged 51, is a non-executive director and has served as a director since November 2004. Prior to that position, Mr. Liu worked consecutively at the State Economic Commission, the State Planning Commission and the Office of Central Financial Work Leading Group. He was inspector of the Economic and Trade Group under the Office of Central Financial Work Leading Group from November 2001 to November 2004, and assistant inspector of the same group from July 1998 to November 2001. Mr. Liu also studied at the Central School of Planning and Statistics in Poland from 1989 to 1990, and worked at the United States Environmental Protection Agency in 1993. Mr. Liu is an economist and graduated from Liaoning University with a bachelor's degree in Chinese in 1978. Mr. Liu is currently an employee of our substantial shareholder, Huijin.

Mr. Zhang Xiangdong, aged 47, is a non-executive director and has served as a director since November 2004. Prior to that position, Mr. Zhang was inspector of the General Bureau of the SAFE from September 2004 to November 2004, deputy director-general of the same bureau from August 2003 to September 2004, deputy general manager of the PBOC's Haikou Central sub-branch and concurrently deputy director-general of the SAFE's Hainan branch from July 2001 to August 2003. Mr. Zhang also served as a member of Stock Offering Approval Committee of CSRC from August 1999 to November 2001. Mr. Zhang is a senior economist and is qualified to practice law in China. He currently serves as an arbitrator of China International Economic and Trade Arbitration Commission. He graduated from Renmin University with a bachelor's degree in law in 1986. He completed his graduate studies in international economic law at Renmin University in 1988, and was awarded a master's degree in 1990. Mr. Zhang is currently an employee of our substantial shareholder, Huijin.

Mr. Gregory L. Curl, aged 57, a citizen of the United States, is a non-executive director and has served as a director since August 2005. Mr. Curl is the global corporate planning and strategy executive of our shareholder Bank of America and has served in several capacities at Bank of America, including as vice chairman of corporate development and global corporate planning and as strategy executive since 1996. Prior to that, he served in various capacities in Boatmen's Bancshares, including vice chairman and chief operating officer since 1978. Mr. Curl currently is a director of the Jefferson Scholars Foundation, University of Virginia, the Enstar Group, Inc. and Grupo Financiero Santander Serfin. Mr. Curl received a bachelor's degree in political science from Southwest Missouri State University and a master's degree in government from the University of Virginia.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Song Fengming, aged 59, is an independent non-executive director and has served as a director since September 2004. Mr. Song is an experienced academic in banking and finance in China. Mr. Song is a professor and supervisor for doctorate students at Tsinghua University and has been the chair of the department of finance and international trade of Tsinghua School of Economics and Management since 1995. He was an associate professor and director of the Division of Finance and International Trade of the same school from 1988 to 1992, and an assistant professor and dean of the management department of Jiangsu University of Science and Technology from 1982 to 1988. Mr. Song received his bachelor's degree in computational mathematics from Peking University in 1970, his master's degree in management from Shanghai Jiaotong University in 1982, and his Ph.D. degree in systems engineering from Tsinghua University in 1988. He pursued his post-doctorate research at the University of California, Riverside, from 1992 to 1995.

Mr. Yashiro Masamoto, aged 77, a Japanese citizen, is an independent non-executive director and has served as a director since September 2004. Mr. Yashiro has been the non-executive chairman of Shinsei Bank since June 2005, and was chairman and chief executive officer of Shinsei Bank and its predecessor, Long Term Credit Bank of Japan, from March 2000 to June 2005. He was chairman of Citibank's Japan branch from October 1997 to March 1999. From November 1989 to October 1997, he held a series of senior positions at Citibank and Citicorp, including executive vice president of the parent corporation. Mr. Yashiro received his bachelor's degree in law from Kyoto University of Japan in 1954 and his master's degree in international relations from Tokyo University in 1958.

Mr. Tse Hau Yin, **Aloysius**, aged 58, is an independent non-executive director and has served as a director since November 2004. Mr. Tse joined KPMG in 1976, became a partner in 1984, and retired from KPMG in March 2003. Mr. Tse served as non-executive chairman of KPMG China and was a member of the China Affairs Committee of KPMG from 1997 to 2000. Mr. Tse is a former president of the Hong Kong Institute of Certified Public Accountant (or "HKICPA"). He is a fellow of the HKICPA and the Institute of Chartered Accountants in England and Wales. Mr. Tse currently is an independent non-executive director of China Telecom Corporation Limited, Wing Hang Bank Limited, CNOOC Limited and Linmark Group Limited. He is also chairman of international advisory council to Wuhan Municipal Government. Mr. Tse graduated from the University of Hong Kong.

Ms. Elaine La Roche, aged 56, a citizen of the United States, is an independent non-executive director and has served as a director since June 2005. Ms. La Roche was the chief executive officer of Salisbury Pharmacy Group, which is in the business of acquiring, restructuring and operating independent community pharmacies in the Northeastern United States, from June 2000 until April 2005. Prior to then, she worked at Morgan Stanley from May 1978 to June 2000. She was a managing director of Morgan Stanley from 1987 and served in various capacities, including as chief of staff to the chair and president of Morgan Stanley. She was seconded from Morgan Stanley to serve as the chief executive officer of China International Capital Corporation Limited from May 1998 to June 2000. Ms. La Roche currently serves as the chair of the board of Linktone, a NASDAQ listed company, and financial executive with Cantor Fitzgerald, a diversified financial services company. Ms. La Roche graduated from Georgetown University School of Foreign Service with a bachelor's degree in international affairs and from the American University with a master's degree in business administration in finance.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Supervisors




Mr. Xie Duyang **Ms. Liu Jin** **Mr. Jin Panshi** **Ms. Chen Yueming**

Mr. Xie Duyang, aged 57, has served as chairman of the board of supervisors since September 2004. Mr. Xie was chairman of the board of supervisors of China Construction Bank from July 2003 to September 2004, chairman of the board of supervisors of People's Insurance Company of China and China Reinsurance Company from July 2000 to July 2003, vice president of Industrial and Commercial Bank of China from October 1992 to July 2000, an officer of director-general level at the Ministry of Organization from June 1989 to October 1992, an officer of director-general level at the National Economic General Affairs Bureau of the State Planning Commission from April 1989 to June 1989, and an officer of deputy director-general level at the same bureau from July 1986 to April 1989. Mr. Xie is a research fellow and graduated from Wuhan University with a doctorate degree in political economics in 2002.

Ms. Liu Jin, aged 41, has served as a supervisor since September 2004. Ms. Liu was dedicated supervisor of deputy director-general level at the board of supervisors of China Construction Bank from July 2003 to September 2004, dedicated supervisor of deputy director-general level at the board of supervisors of the People's Insurance Company of China and China Reinsurance Company from November 2001 to July 2003, and chief manager of the board of supervisors of the People's Insurance Company of China and China Reinsurance Company from July 2000 to November 2001. Ms. Liu is a senior economist and graduated from Hunan Finance and Economics College with a bachelor's degree in finance in 1984.

Mr. Jin Panshi, aged 41, has served as a supervisor since September 2004. Mr. Jin was deputy general manager of the audit department of China Construction Bank from June 2001 to September 2004, and senior manager of off-site audit division of audit department of China Construction Bank from September 1999 to June 2001. Mr. Jin is a senior engineer and a Certified Information Systems Auditor and graduated from Jilin University of Technology with a bachelor's degree in computer and application in 1986, and a master's degree in applied computing from the same university in 1989.

Ms. Chen Yueming, aged 49, has served as a supervisor since September 2004. Ms. Chen was vice president of State Grid since December 2002. From April 2003, she was also chair of the board of directors of China Power Finance Company Limited; and beginning April 2005, she was also chief accountant of State Grid. Ms. Chen was chief accountant and director of Finance and Property Ownership Management Department of the State Power Company from November 2001 to December 2002, deputy chief accountant and director of Finance and Property Ownership Management Department of the State Power Company from July 2000 to November 2001, and director of Finance and Property Ownership Management Department of the State Power Company from March 1999 to July 2000. Ms. Chen is a senior accountant and graduated from Zhongnan University of Economics, Politics and Law with a bachelor's degree in industrial finance and accounting in 1982.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Ms. Cheng Meifen

Mr. Cui Jianmin

Mr. Guo Feng

Ms. Cheng Meifen, aged 50, has served as a supervisor since December 2004. Ms. Cheng has been general manager of the legal affairs department of China Construction Bank from March 2004, and deputy general manager of the same department from August 1999 to March 2004. Ms. Cheng is an economist and graduated with a master's degree in law from the law department of Peking University in 1998.

Mr. Cui Jianmin, aged 73, has served as an external supervisor since March 2005. Mr. Cui was an advisor to the Chinese Certified Tax Agents Association from October 2004, an independent supervisor at China Petroleum & Chemical Corporation from April 2000, president of the Chinese Institute of Certified Public Accountants from December 1995 to November 2004, executive deputy auditor general of the National Audit Office from March 1987 to April 1995, deputy auditor general of the same office from January 1985 to March 1987, director-general of the Industry and Transportation Audit Office of NAO from June 1983 to January 1985, deputy director-general of the Finance Department of the First Ministry of Machine-Building Industry from February 1981 to June 1983, and vice director of the General Affairs Office of the same ministry from February 1977 to February 1981. Mr. Cui is a senior auditor and graduated with a bachelor's degree from the economic planning department of the Renmin University of China in 1962.

Mr. Guo Feng, aged 43, has served as an external supervisor since March 2005. Mr. Guo has been a professor at the law school of the Central University of Finance and Economics and Director of the Research Institute of Financial and Economic Law of the same university since December 2004. He was an associate professor at the law school of the Renmin University of China from June 1993 to December 2004, and deputy director of the Institute of Financial Law of the same university from February 1993 to December 2004. Mr. Guo was a visiting scholar at the law school of the City Polytechnic of Hong Kong from January 1993 to June 1993. Mr. Guo is a professor. He received his master's degree in civil and commercial law from the Renmin University of China in June 1986 and his Ph.D. degree in civil and commercial law from the same university in 1995.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Senior management


Mr. Luo Zhefu


Ms. Xin Shusen


Mr. Chen Zuofu


Mr. Fan Yifei

Mr. Chang Zhenming, aged 49, vice chairman of the board of directors, executive director and president. See "Directors".

Ms. Liu Shulan, aged 60, executive director and vice president. See "Directors".

Mr. Zhao Lin, aged 51, executive director and vice president. See " Directors".

Mr. Luo Zhefu, aged 53, has served as a vice president since September 2004. Mr. Luo is primarily responsible for overseeing our corporate banking business. Prior to that position, Mr. Luo was vice president of China Construction Bank from November 2000 to September 2004, general manager of Beijing branch of the Agricultural Bank of China from October 1999 to November 2000, general manager of Hong Kong branch of the Agricultural Bank of China from August 1998 to October 1999, general manager of Shenzhen branch of the Agricultural Bank of China from May 1997 to August 1998, general manager of the treasury and planning department of the Agricultural Bank of China from January 1997 to May 1997, deputy general manager of the treasury and planning department of the Agricultural Bank of China from February 1995 to January 1997, deputy general manager of the education department at the head office of the Agricultural Bank of China from February 1993 to February 1995, and assistant general manager of the Research Office of the Agricultural Bank of China from February 1992 to February 1993. Mr. Luo also serves as chairman of the board of China Construction Bank (Asia) Limited. Mr. Luo is a senior economist and graduated from Jilin Finance and Trade College with a bachelor's degree in commerce and economics in 1982. He received his master's degree in commerce and economics from the Chinese Academy of Social Sciences in 1986.

Ms. Xin Shusen, aged 56, has served as a vice president since July 2005. Ms. Xin is primarily responsible for overseeing our compliance matters. Ms. Xin was our chief compliance officer from September 2004 to July 2005, chief controller of China Construction Bank from September 2003 to September 2004, deputy chief controller of China Construction Bank from February 2003 to September 2003, general manager of personal banking department of China Construction Bank from June 2000 to February 2003, general manager of retail banking department of China Construction Bank from June 1998 to June 2000, general manager of funding and savings department of China Construction Bank from April 1994 to June 1998, and deputy general manager of human resources department of China Construction Bank from August 1990 to April 1994. She was also the general manager of the corporate culture department from September 1993 to April 1994. Ms. Xin is a senior economist and recipient of a special on-going grant by the PRC government. Ms. Xin graduated from Changchun Metallurgy Construction Institute with a degree in industrial and civil construction in 1983. She received her master's degree in national economics from Northeast University of Finance and Economics in 1998.

Mr. Chen Zuofu, aged 51, has served as a vice president since July 2005. Mr. Chen is primarily responsible for overseeing our personal banking business. Mr. Chen was assistant president of the Bank from September 2004 to July 2005, assistant president of China Construction Bank from July 1997 to September 2004. Mr. Chen was a visiting scholar to Stanford University from June 1999 to May 2000. Mr. Chen is a lecturer and graduated from Southwest University of Politics and Law with a bachelor's degree in law in 1983. He received his master's degree in management and engineering from Central South University of Technology in 1996.

Mr. Fan Yifei, aged 41, has served as a vice president since July 2005. Mr. Fan is primarily responsible for overseeing our asset and liability management, finance and accounting-related matters. Mr. Fan was our assistant president from September 2004 to July 2005, assistant president of China Construction Bank from February 2000 to September 2004, and served concurrently as assistant president of China Yangtze Power Co., Ltd. from March 2003 to March 2004. He was general manager of the planning and finance department of China Construction Bank from January 1998 to February 2000, general manager of the finance and accounting department of China Construction Bank from July 1996 to January 1998, and deputy general manager of treasury and planning department of China Construction Bank from September 1994 to July 1996. Mr. Fan also serves as a director of China Petroleum & Chemical Corporation. Mr. Fan is a senior accountant and received his M.A. in finance from the Institute of Finance under the MOF in 1990, his Ph.D. in finance from Renmin University of China in 1993, and his M.I.A. degree in international economics from Columbia University in 2002.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT


Mr. Yu Yongshun


Mr. Xuan Changneng


Mr. Ha Yiu Fai


Mr. Yuen Yiu Leung

Mr. Yu Yongshun, aged 55, has served as our chief auditor since July 2005 and as general manager of our audit department since September 2004. Mr. Yu is primarily responsible for overseeing our internal audit-related matters. Prior to that position, Mr. Yu was general manager of the audit department of China Construction Bank from April 1999 to September 2004, general manager of No. 2 banking department of China Construction Bank from April 1998 to April 1999, general manager of Xinjiang Autonomous Region Branch of China Construction Bank from March 1996 to April 1998, general manager of real estate credit department of China Construction Bank from September 1993 to March 1996, and deputy general manager of treasury and planning department of China Construction Bank from October 1990 to September 1993. Mr. Yu is a senior economist and receives special subsidies from the PRC government. He graduated from Liaoning Finance and Economics College with a degree in infrastructure finance in 1977.

Secretary to the board of directors

Mr. Xuan Changneng, aged 39, has served as the secretary to the board of directors since November 2004. Mr. Xuan joined us in September 2004 as a senior adviser to the Restructuring Office at the department general manager level. He had worked as a securities regulator with CSRC, serving as a deputy director-general of its Broker-Dealer Supervision Division from April 2001 to September 2004 and a member of CSRC's Planning and Development Committee from November 2000 to April 2001. Mr. Xuan was a senior analyst in the Derivatives Research Department of J. P. Morgan Securities in New York from August 1997 to August 1999. He served as the president of the U.S.-based Chinese Finance Association from 1998 to 1999. He graduated from University of Pennsylvania Law School with an LL.M. in 2000 and a Ph.D. in finance from the University of Texas at Austin in 1997. He received a B.S. from University of Science and Technology of China in 1988. According to the Articles of Association, Mr. Xuan is responsible for, among other things, assisting the board in its day-to-day activities, supervising the preparation of documents presented to the board and the shareholders, coordinating matters regarding disclosure of information to the public and managing investor relations.

Company secretary

Mr. Ha Yiu Fai, aged 48, has served as our company secretary since August 2005. Mr. Ha has over 20 years' experience practising corporate and commercial law in England, Australia and Hong Kong, both as in-house counsel and in private practice. Mr. Ha has been head of legal and compliance of CCB International (Holdings) Limited and its subsidiaries since December 2004. Prior to that, Mr. Ha was an in-house counsel at JP Morgan and its predecessor from January 1998 to December 2004. Mr. Ha is a fellow member of the Institute of Chartered Secretaries and Administrators, UK and the Hong Kong Institute of Chartered Secretaries. Mr. Ha graduated from the University of London with a bachelor's degree in law in 1982 (Queen Mary College) and a master's degree in law in 1983 (University College). Mr. Ha also received a master's degree in PRC law from City University of Hong Kong in 1997.

Qualified accountant

Mr. Yuen Yiu Leung, aged 41, has served as our qualified accountant since August 2005. Mr. Yuen has been head of finance of our Hong Kong branch since September 2004. Prior to that, Mr. Yuen held the same position in the Hong Kong branch of China Construction Bank from October 1995 to September 2004 and he served in several capacities at the internal control, finance and accounting functions of Standard Chartered Bank. Mr. Yuen is a fellow of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants, UK and the Chartered Institute of Management Accountants, UK and an associate of the Institute of Chartered Accountants in England & Wales. Mr. Yuen graduated from Hong Kong Polytechnic University with a professional diploma in management accountancy in 1988 and received a master's degree in business administration from University of Wales in cooperation with Manchester Business School in 1998.


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