

INDUSTRY OVERVIEW

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China's Economy

China's economy has grown rapidly since the PRC government adopted the national policy of "reform and opening" in the late 1970s. From 2007 to 2012, China's nominal GDP increased at a CAGR of 14.3% from RMB26,581 billion to RMB51,932 billion. China's economic growth has resulted in an increase in per capita disposable income. From 2007 to 2012, China's per capita disposable income of urban households grew at a CAGR of 12.2% from RMB13,786 to RMB24,565. The table below sets forth information on China's GDP and per capita disposable income of urban households for the years indicated:

	2007	2008	2009	2010	2011	2012	CAGR (2007-2012)
Nominal GDP (based on current prices) (RMB in billions)	26,581	31,405	34,090	40,151	47,310	51,932	14.3%
Nominal GDP growth rate (based on current prices) (%)	22.9	18.1	8.6	17.8	17.8	9.8	N/A
Real GDP (based on constant prices) (RMB in billions)	10,693	11,724	12,804	14,141	15,456	16,661	9.3%
Real GDP growth rate (based on constant prices) (%)	14.2	9.6	9.2	10.4	9.3	7.8	N/A
Per capita disposable income of urban households (in RMB)	13,786	15,781	17,175	19,109	21,810	24,565	12.2%
Per capita disposable income of urban households growth rate (%)	17.2	14.5	8.8	11.3	14.1	12.6	N/A

Source: International Monetary Fund, World Economic Outlook Database, March 2013; China Statistical Yearbook 2007—2012; China 2012 National Economic and Social Development Statistics Bulletin

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Anhui's Economy

Overview

Anhui is located in Central China, an important region where the PRC government has made great efforts in promoting its economic development in recent years. Since 2006, the State Council has introduced a series of policies to promote the “Rise of Central China” concept to a national strategic level, aiming to build Central China into a new national economic growth engine by fully exploiting and leveraging Central China’s unique geographic advantages and historical opportunity for economic transformation. According to the NBS and other relevant statistical data, from 2007 to 2012, the nominal GDP of Central China increased from RMB5.3 trillion to RMB11.6 trillion, representing a CAGR of 17.1%, higher than that of 14.3% and 13.9% for China and the Eastern Coastal Region, respectively. From 2010 to 2012, per capita disposable income of urban households in Central China increased at a CAGR of 13.9%, higher than the CAGRs of 13.4% and 12.7% for China and the Eastern Coastal Region, respectively.

Anhui leads Central China in terms of economic development. Anhui’s real GDP increased at a CAGR of 12.8% from 2010 to 2012, the highest in Central China. Anhui’s per capita disposable income of urban households increased from RMB15,788 in 2010 to RMB21,024 in 2012, representing a CAGR of 15.4%, the highest in Central China. From 2010 to 2012, Anhui’s total retail sales of consumer goods increased at a CAGR of 17.0%, ranking No. 1 in Central China. In 2012, fixed asset investments in Anhui amounted to RMB1,506 billion, representing an increase of 24.2% from 2011.

Anhui’s large population has fostered a sizeable and rapidly expanding domestic market, which in turn has promoted the ongoing urbanization. As of the end of 2012, Anhui’s population of 69 million, was the eighth largest among all provinces in China. Anhui’s urbanization rate increased from 38.7% in 2007 to 46.5% in 2012, primarily driven by rapid economic growth over the same period. Under the Anhui Twelfth Five-Year Urbanization Plan (《安徽省“十二五”城鎮化發展規劃》), the government intends to increase Anhui’s urbanization rate to over 50% by 2015, which is expected to further drive the development of the real estate, manufacturing, service and other industries, and in turn boost investment in infrastructure and promote the continual growth in domestic consumption.

The table below sets forth information on Anhui’s GDP, fixed asset investment and per capita disposable income of urban households for the years indicated:

	2007	2008	2009	2010	2011	2012	CAGR (2007-2012)
Nominal GDP (RMB in billions)	736	885	1,006	1,236	1,530	1,721	18.5%
Nominal GDP growth rate (%)	20.4	20.3	13.7	22.8	23.8	12.5	N/A
Real GDP growth rate (%)	14.2	12.7	12.9	14.6	13.5	12.1	N/A
Fixed asset investment (RMB in billions) . . .	511	679	926	1,185	1,213	1,506	24.1%
Per capita disposable income of urban households (in RMB)	11,474	12,990	14,086	15,788	18,606	21,024	12.9%
Per capita disposable income of urban households growth rate (%)	17.4	13.2	8.4	12.1	17.8	13.0	N/A

Source: Statistics Bureau of Anhui Province

Anhui enjoys a unique geographical advantage of being the bridge between the eastern, western, southern and northern parts of China. As an adjacent province with close economic and cultural ties with the Yangtze River Delta, Anhui has gradually become an integral part of the pan-Yangtze River Delta, comprising Shanghai, Jiangsu Province, Zhejiang Province and Anhui Province.

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At the same time, as economic development and industrial production gradually transfer to Central China and Western China, Anhui has become a key region for industrial migration from the developed coastal region of China. Anhui has a comprehensive transportation system comprising railways, water transport, road transport and air transport, and is an important transportation hub connecting the Yangtze River Delta, the Pearl River Delta, the Beijing-Tianjin-Tangshan region, Central China and Western China.

Anhui's industrial structure is in a stage of transformation and upgrading. According to the 2007 and 2012 National Economic and Social Development Statistics Bulletins of Anhui, the percentage of Anhui's nominal GDP generated from the secondary industry increased from 44.7% in 2007 to 54.6% in 2012. According to the Statistics Bureau of Anhui Province, the industrial output from above-scale industrial enterprises (comprising industrial enterprises with annual revenue from principal business of RMB20 million or more) in Anhui grew by 16.2% in 2012 compared to 2011, and the industrial output from above-scale industrial SMEs and high-tech enterprises in Anhui grew by 25.3% and 16.5%, respectively, over the same period.

Driven by the above factors, Anhui's financial services industry has achieved significant growth in recent years, outpacing the national growth rate for the same period. From 2010 to 2012, total assets of Anhui's financial institutions grew at a CAGR of 21.2%, higher than the CAGRs of 18.4% and 17.4% for China and the Eastern Coastal Region, respectively; total loans grew at a CAGR of 19.3%, higher than the CAGRs of 15.0% and 13.2% for China and the Eastern Coastal Region, respectively; total deposits grew at a CAGR of 18.5%, higher than the CAGRs of 13.4% and 12.8% for China and the Eastern Coastal Region, respectively.

Economic Development Policies of Anhui

In recent years, China's central and local governments have adopted various policies to promote Anhui's economic development. In April 2006, the State Council issued the "Certain Opinions of the Central Committee of the Chinese Communist Party and the State Council on Promoting the Rise of Central China" (《中共中央、國務院關於促進中部地區崛起的若干意見》), promoting the "Rise of Central China" concept to a national strategic level. In September 2009, the State Council introduced the "Plan on Promoting the Rise of Central China" (《促進中部地區崛起規劃》), detailing specific plans to achieve the rise of Central China. In August 2012, the State Council issued the "Certain Opinions of the State Council on Vigorously Implementing the Strategy of the Rise of Central China" (《國務院關於大力實施促進中部地區崛起戰略的若干意見》), further strengthening the implementation of the plan for the Rise of Central China. The PRC government plans to promote the sustainable economic development of Central China into a national economic growth engine by fully exploiting and leveraging its strategic geographical advantages, low labor cost and rising consumer market. Under Anhui's Twelfth Five-Year Urbanization Plan, the government aims to increase the annual growth rate of per capita income of urban and rural households in Anhui to over 10% and Anhui's urbanization rate to over 50% by 2015.

Under the Anhui Twelfth Five-Year Period Urbanization Plan, the Anhui government has set forth a plan to develop a modern urban system, positioning Hefei, Wuhu, Anqing, Bengbu, Fuyang and other central cities as core cities, and other mid- and small-sized cities and towns as basic cities, and formulated an urbanization strategy for developing three economic regions, namely, the Wanjiang City Belt, the Hefei Economic Circle and the Wanbei City Cluster. The plan promotes regionally balanced economic growth through supporting economic growth in central cities and implementing

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differentiated regional positioning and industrial development strategies based on the comparative advantages of different regions.

Under the Plan for the Wanjiang City Belt Industrial Relocation Model Zone (《皖江城市帶承接產業轉移示範區規劃》), which was approved by the State Council and came into effect in January 2010, the PRC government plans to support the growth of Anhui's economy through the development of the Wanjiang City Belt that accounted for 66% of Anhui's GDP in 2012. The plan promotes the development of industries in the Wanjiang City Belt through the relocation of key industries from the Yangtze River Delta. Under the plan, Jiangsu, Zhejiang and Shanghai are expected to become Anhui's primary sources of industrial migration for industries including manufacturing, high-tech industries and modern agriculture. According to the Anhui Development and Reform Commission, from January to November 2012, Anhui received RMB265 billion capital inflow of industrial migration from Jiangsu, Zhejiang and Shanghai, representing 54.9% of its total capital inflow. The plan also encourages the development and innovation in the financial services industry to support the development of local SMEs.

Under the Anhui Twelfth Five-Year Period Urbanization Plan, the Anhui government introduced a number of measures to bolster the development of large competitive enterprises, aiming to further enhance its competitive industries, such as automobile, equipment manufacturing, home appliance and food, through scale development, industrial centralization and branding development, and build an advanced, nationally significant manufacturing base. The Anhui government also introduced the "Three Major Multi-billions" (三大千億) plan, which includes the fostering of an industrial cluster of enterprises with total output over RMB100 billion and an industrial cluster of enterprises with sales income over RMB100 billion. At the same time, Anhui also plans to vigorously develop its small and medium-sized enterprises to build professional, distinguished and differentiated industrial clusters, and at least double the number of above-scale industrial enterprises by 2015.

CHINA'S BANKING INDUSTRY

Overview

Since the start of China's economic reforms in the late 1970s, China's banking system has been gradually transformed from a centralized, government-controlled system of providers of loans, with all central and commercial banking operations organized under the PBOC, into a system in which different types of mixed-ownership banks provide a variety of financial services.

At present, the CBRC is the primary banking industry regulator in China, assuming most of the PBOC's former regulatory functions. The commercial banking industry primarily comprises (i) Five Largest State-owned Commercial Banks and (ii) Nation-wide Joint Stock Commercial Banks, both types of which are permitted to operate nationwide, (iii) city commercial banks and (iv) rural cooperative financial institutions, both types of which generally focus on approved geographic areas.

For historical reasons, China's banking industry has accumulated a large number of non-performing loans. Since the late 1990s, the PRC government has taken numerous initiatives to improve the asset quality and capital base of large state-owned commercial banks through acquisition of non-performing loans and equity injections.

China's banking industry has grown rapidly in recent years, primarily driven by strong macroeconomic growth in China. From 2008 to 2012, aggregate RMB-denominated loans and deposits

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of China's banking institutions grew at a CAGR of 20.0% and 18.4%, respectively. The table below sets forth information on the aggregate RMB- and foreign currency-denominated loans and deposits of China's banking institutions as of the dates indicated:

	As of December 31,						CAGR (2007-2012)
	2007	2008	2009	2010	2011	2012	
RMB-denominated bank loans (RMB in billions)	26,169	30,339	39,968	47,920	54,795	62,991	19.2%
RMB-denominated bank deposits (RMB in billions)	38,937	46,620	59,774	71,824	80,937	91,755	18.7%
Foreign currency-denominated bank loans (US\$ in billions)	220	244	379	453	539	684	25.5%
Foreign currency-denominated bank deposits (US\$ in billions)	160	179	209	229	275	406	20.5%

Source: PBOC

Similar to the Five Largest State-owned Commercial Banks, many Nation-wide Joint Stock Commercial Banks and certain city commercial banks have also improved their capital base, asset quality and profitability through private placement, public offerings and adopting advanced management practices in line with international standards.

The table below sets forth certain information on China's banking industry by type of banking institution for the year ended and as of December 31, 2012:

	Institutions (No.)	Total assets			Shareholders' equity			Profit after tax	
		Amount (RMB in billions)	Market share (%)	CAGR (2007-2012) (%)	Amount (RMB in billions)	Market share (%)	CAGR (2007-2012) (%)	Amount (RMB in billions)	Market share (%)
Five Largest State-owned Commercial Banks ...	5	60,040	44.9	16.1	3,952	45.6	20.1	755	49.9
Nation-wide Joint Stock Commercial Banks ...	12	23,527	17.6	26.5	1,314	15.2	31.1	253	16.7
City commercial banks	144	12,347	9.2	29.9	808	9.3	33.8	137	9.1
Rural cooperative financial institutions ⁽¹⁾	2,411	15,512	11.6	22.0	996	11.5	30.1	161	10.6
Foreign banking institutions ⁽²⁾	42	2,380	1.8	13.7	256	2.9	16.9	16	1.1
Other financial institutions ⁽³⁾	1,133	19,798	14.8	22.7	1,345	15.5	19.8	190	12.6
Total	3,747	133,605	100.0	20.3	8,671	100.0	23.3	1,512	100.0

Source: CBRC Annual Report 2012

(1) Comprises rural credit cooperatives, rural commercial banks and rural cooperative banks.

(2) Comprises the branches, locally incorporated subsidiaries and joint venture banks of foreign banking institutions.

(3) Comprises policy banks, China Development Bank, trust companies, group financing companies, financial leasing companies, automobile financing companies, money brokerage firms, new-type rural financial institutions and postal savings banks.

City Commercial Banks

City commercial banks are banks with branches at the municipal or higher levels, created under the PRC Company Law and the PRC Commercial Banking Law from predecessor urban credit

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cooperatives with the approval of the CBRC. In 1995, the State Council decided to restructure urban credit cooperatives into city cooperative banks, renamed as city commercial banks in 1997. According to the CBRC Annual Report 2012, as of December 31, 2012, there were 144 city commercial banks in China. City commercial banks have played active roles in maintaining regional financial stability, promoting market competition, facilitating access to financial services, and easing funding pressures for SMEs. According to the CBRC, the total assets of city commercial banks as a percentage of total assets of the banking industry in China increased from 6.3%, or RMB3.3 trillion, as of December 31, 2007 to 9.2%, or RMB12.3 trillion, as of December 31, 2012, representing a CAGR of 29.9%, higher than other types of commercial banks.

As opposed to national commercial banks, city commercial banks are generally focused on providing banking services to institutions and individuals in approved geographic areas. Beginning in 2005, city commercial banks in China were allowed to establish branches in different regions upon approval from the CBRC. In recent years, however, city commercial banks have faced tighter regulatory restrictions on business expansion beyond their approved regions.

Leveraging their understanding of local markets and relationships with local customers, city commercial banks are generally well-positioned to capture opportunities and market trends in local areas. According to the CBRC, between 2007 and 2012, total assets and net assets of city commercial banks grew at CAGRs exceeding those of the Five Largest State-owned Commercial Banks and Nation-wide Joint Stock Commercial Banks.

The table below sets forth certain information relating to city commercial banks in China for the years indicated:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
	(RMB in billions, except percentages)					
Assets	3,341	4,132	5,680	7,853	9,985	12,347
Liabilities	3,152	3,865	5,321	7,370	9,320	11,540
Shareholders' equity	188	267	359	482	664	808
Profit after tax	25	41	50	77	108	137
NPL ratio	3.0%	2.3%	1.3%	0.9%	0.8%	0.8%

Source: CBRC Annual Report 2012; CBRC website

City commercial banks in China have also made substantial improvement in their profitability. The table below sets forth the return on average assets of China's banking industry by type of institution for the years indicated:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
	(%)					
Five Largest State-owned Commercial Banks	0.94	1.16	1.09	1.17	1.32	1.33
Nation-wide Joint Stock Commercial Banks	0.89	1.04	0.90	1.02	1.20	1.21
City commercial banks	0.84	1.09	1.01	1.14	1.21	1.22
Rural cooperative financial institutions ⁽¹⁾	0.58	0.62	0.65	0.72	1.04	1.13
Foreign banking institutions	0.56	0.92	0.48	0.50	0.86	0.72
Other financial institutions ⁽²⁾	1.26	0.65	0.68	0.77	0.94	1.05
Total	<u>0.92</u>	<u>1.00</u>	<u>0.94</u>	<u>1.03</u>	<u>1.20</u>	<u>1.22</u>

Source: CBRC Annual Report 2012

(1) Comprises urban credit cooperatives, rural credit cooperatives, rural commercial banks and rural cooperative banks.

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(2) Comprises policy banks, China Development Bank, trust companies, group financing companies, financial leasing companies, automobile financing companies, money brokerage firms, new-type rural financial institutions and postal savings banks.

In addition, the average NPL ratio of China's city commercial banks has decreased from 2007 to 2012. The table below sets forth a breakdown of the average NPL ratio of China's banking industry by type of institution for the years indicated:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
	(%)					
Five Largest State-owned Commercial Banks	8.0	2.8	1.8	1.3	1.1	1.0
Nation-wide Joint Stock Commercial Banks	2.1	1.3	1.0	0.7	0.6	0.7
City commercial banks	3.0	2.3	1.3	0.9	0.8	0.8
Rural commercial banks	4.0	3.9	2.8	1.9	1.6	1.8
Foreign banking institutions	<u>0.5</u>	<u>0.8</u>	<u>0.9</u>	<u>0.5</u>	<u>0.4</u>	<u>0.5</u>
Total	<u>6.1</u>	<u>2.4</u>	<u>1.6</u>	<u>1.1</u>	<u>1.0</u>	<u>1.0</u>

Source: CBRC Annual Reports 2007—2012

ANHUI'S BANKING INDUSTRY

According to the 2012 Anhui Banking Development Annual Report, Anhui had a total of 157 banking institutions either incorporated or with provincial-level branches in Anhui as of December 31, 2012. In addition, according to the CBRC Annual Report 2012, Anhui's total loans grew by 18.7% in 2012, ranking eighth among all provinces in China by growth rate. We are the only city commercial bank headquartered in Anhui. In addition, three city commercial banks headquartered outside of Anhui have established branches in Anhui.

According to the 2012 Anhui Banking Development Annual Report, total assets and total liabilities of banking institutions in Anhui as of December 31, 2012 increased by 21.6% and 21.4%, respectively, from December 31, 2011, each ranking the highest among provinces in Central China by growth rate. The table below sets forth a breakdown of the assets and liabilities of banking institutions in Anhui as of December 31, 2012:

	<u>Number of institutions⁽¹⁾</u>	<u>Total assets</u>		<u>Total liabilities</u>	
		<u>Amount</u>	<u>Market Share</u>	<u>Amount</u>	<u>Market Share</u>
		(No.)	(RMB in billions)	(%)	(RMB in billions)
Five Largest State-owned Commercial Banks	5	1,248	42.0	1,230	42.8
Nation-wide Joint Stock Commercial Banks	8	297	10.0	291	10.1
City commercial banks	4	331	11.1	310	10.8
Rural cooperative financial institutions ⁽²⁾	84	519	17.5	485	16.8
Foreign banking institutions	2	4	0.1	4	0.1
Other financial institutions ⁽³⁾	<u>54</u>	<u>576</u>	<u>19.4</u>	<u>557</u>	<u>19.4</u>
Total	<u>157</u>	<u>2,974</u>	<u>100.0</u>	<u>2,877</u>	<u>100.0</u>

Source: 2012 Anhui Banking Development Annual Report

(1) Includes institutions incorporated in Anhui or with a provincial-level branch in Anhui.

(2) Comprises rural credit cooperatives, rural commercial banks and rural cooperative banks.

(3) Comprises policy banks, China Development Bank, trust companies, postal savings banks, financial leasing companies, automobile financing companies, new-type rural financial institutions, financial asset management companies and group financing companies.

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The table below sets forth information on banking institution deposits and loans in Anhui and other provinces in Central China as of December 31, 2012:

	Deposits				Loans			
	Amount	Rank ⁽¹⁾	Growth ⁽²⁾	Rank ⁽¹⁾	Amount	Rank ⁽¹⁾	Growth ⁽²⁾	Rank ⁽¹⁾
	(RMB in billions)	(No.)	(%)	(No.)	(RMB in billions)	(No.)	(%)	(No.)
Anhui	2,321	14	18.8	10	1,680	14	18.7	8
Shanxi	2,416	13	15.0	23	1,321	19	17.2	12
Jiangxi	1,684	20	17.6	15	1,108	22	19.1	7
Henan	3,197	10	19.4	6	2,030	11	15.0	23
Hubei	2,826	11	17.0	17	1,903	12	17.4	11
Hunan	2,315	15	19.1	7	1,565	15	16.2	15
Central China	14,758	—	17.8	—	9,607	—	17.1	—
China	94,310	—	14.1	—	67,288	—	15.6	—

Source: 2012 Anhui Banking Development Annual Report

(1) Rankings are among the 31 provincial-level divisions of China.

(2) Growth represents the percentage increase from the amount as of January 1, 2012.

Anhui's banking industry is relatively under-penetrated in terms of total loans over nominal GDP and per capita branch outlets, and therefore represents significant growth potential.

In 2012, Anhui's banking penetration as measured by total loans over nominal GDP was 97.6%, below China's national banking penetration of 129.6%. The table below sets forth the banking penetration, total loans and nominal GDP for China and six provinces in Central China for the year ended and as of December 31, 2012:

	Anhui	Shanxi	Jiangxi	Henan	Hubei	Hunan	China
Banking penetration (%)	97.6	109.1	85.6	68.1	85.5	70.6	129.6
Total loans (RMB in billions)	1,680	1,321	1,108	2,030	1,903	1,565	67,288
Nominal GDP (RMB in billions)	1,721	1,211	1,295	2,981	2,225	2,215	51,932

Source: PBOC, 2012 China Regional Financial Operations; 2012 National Economic and Social Development Statistics Bulletin and Economic and Social Development Statistics Bulletins of Anhui, Shanxi, Jiangxi, Henan, Hunan and Hubei provinces

In 2012, Anhui's number of branch outlets per 10,000 residents was 1.10, below China's national level of 1.49. The table below sets forth the number of branch outlets per 10,000 residents, number of branch outlets and number of residents for China and six provinces in Central China for the year ended and as of December 31, 2012:

	Anhui	Shanxi	Jiangxi	Henan	Hubei	Hunan	China
Number of branch outlets per 10,000 residents	1.10	1.71	1.41	1.27	1.22	1.38	1.49
Number of branch outlets	6,612	6,168	6,345	11,948	7,035	9,164	202,000
Number of residents (10,000)	5,988	3,611	4,504	9,406	5,779	6,639	135,404

Source: PBOC, 2012 China Regional Financial Operations; 2012 National Economic and Social Development Statistics Bulletin and Economic and Social Development Statistics Bulletins of Anhui, Shanxi, Jiangxi, Henan, Hunan and Hubei provinces.

COMPETITIVE LANDSCAPE

As a city commercial bank based in Anhui, we mainly compete against other Chinese commercial banking institutions with operations in Anhui. As of December 31, 2012, we ranked fourth and third among Chinese commercial banks operating in Anhui in terms of deposits and loans in

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Anhui, respectively, according to the 2012 Anhui Banking Development Annual Report. We also compete against China's policy banks, rural cooperative and other financial institutions with operations in Anhui.

The table below sets forth a comparison of the ten largest commercial banks in Anhui by loans as of and for the year ended December 31, 2012:

	Deposits	Percentage ⁽¹⁾	Loans	Percentage ⁽¹⁾	Profit before tax	Percentage ⁽¹⁾	NPL ratio	Total Asset	Percentage ⁽¹⁾
	(RMB in billions)	(%)	(RMB in billions)	(%)	(RMB in billions)	(%)	(%)	(RMB in billions)	(%)
Huishang Bank ⁽²⁾	242	15.3	167	16.5	6	17.9	0.6	314	17.8
ICBC	320	20.2	216	21.3	6	19.7	1.9	329	18.7
CCB	267	16.8	174	17.2	5	14.5	0.5	280	15.9
Bank of China	214	13.5	144	14.2	5	15.5	0.2	223	12.6
Agricultural Bank of China	273	17.2	128	12.6	5	15.9	0.8	285	16.2
Bank of Communications . .	122	7.7	72	7.1	2	6.5	0.7	131	7.4
China CITIC Bank . .	41	2.6	33	3.2	1	2.3	0.3	50	2.9
China Merchants Bank	41	2.6	33	3.2	1	3.4	0.6	46	2.6
China Everbright Bank	34	2.2	27	2.7	1	2.2	0.5	51	2.9
Industrial Bank	29	1.9	19	1.9	1	2.1	0.5	55	3.1
Total	1,583	100.0	1,013	100.0	32	100.0	N/A	1,763	100.0

Source: 2012 Anhui Banking Development Annual Report

(1) Representing the percentage of the total amount of the ten banks.

(2) Unaudited and including our Nanjing Branch.

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Interest Rate Liberalization and Financial Disintermediation Further Promoting the Development of Fee- and Commission-based Business

Interest rates on deposits and loans in China were historically set by and subject to restrictions established by the PBOC. Since 1996, as part of the overall reform of the banking system, the PBOC has implemented a series of initiatives to gradually promote the liberalization of interest rates, including removing the interest rate restrictions affecting the inter-bank money market, government and policy bank bonds and deposits and loans in foreign currencies, as well as lowering the interest rate floor for RMB-denominated loans and lifting the interest rate ceiling for RMB-denominated deposits. In early 2007, the Shanghai Interbank Offered Rate, or SHIBOR, commenced operation, and a market-based interest rate system based on SHIBOR is gradually taking shape. On July 20, 2013, the PBOC lifted restrictions on interest rates that financial institutions can charge on RMB-denominated loans (excluding residential mortgage loans), and abolished the minimum rates for RMB-denominated loans and restrictions on interest rates of discounted bills. Based on the PBOC new rules, financial institutions can charge interest rates based on commercial terms (excluding interest rates for residential mortgage loans). In addition, the Chinese government established goals of gradually promoting market-oriented interest rate reform and strengthening the creation of a market-based interest rate system in its "Twelfth Five-Year Plan." In addition, in recent years, there has been a trend of financial disintermediation, with depositors transferring funds away from savings banks and other intermediary

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financial institutions to direct investments. Financial disintermediation, which has been primarily driven by deposit rates below inflation rates, the evolution of financial markets, the diversification, integration and personalization of customer demand, adjustments in social financing structure has affected the deposit levels of commercial banks, which in turn affected the funds that could otherwise be used in the lending business to generate interest income. At the same time, financial disintermediation has also led to a decrease in the borrowing demand of enterprises, in particular Large Enterprises.

Interest rate liberalization and financial disintermediation have prompted the transformation of the banking industry in China and encouraged the development and introduction of more diversified fee- and commission-based products and services, such as investment banking, wealth management and alternative investment services and other non-interest income businesses. In recent years, Chinese commercial banks have also expanded into areas such as financial leasing, fund management and insurance. In addition, cooperation between banks and trust companies has become increasingly close in fields such as the distribution and sale of wealth management products and the provision of custody services for trust assets. Since 2001, the Chinese government has promulgated various regulations allowing Chinese commercial banks to charge for certain fee and commission-based products and services. For further information, see the section entitled “Supervision and Regulation.” According to the CBRC, the proportion of fee- and commission-income to total operating income for the Chinese banking industry increased from 9.4% in 2007 to 13.7% in 2012, which remains lower than that of more mature overseas markets. As China’s commercial banks continue to develop fee- and commission-based products and services to meet rising customer demand, it is expected that this proportion will continue to increase.

Enhanced Industry Fundamentals

The reform and development of the banking industry in China has resulted in significant improvements in corporate governance, risk management, capital strength, profitability, branding and market recognition. According to the CBRC, total assets of China’s banking institutions increased from RMB53,116 billion as of December 31, 2007 to RMB133,622 billion as of December 31, 2012, and profit after tax increased from RMB447 billion in 2007 to RMB1,512 billion in 2012. In particular, the asset quality of China’s banking institutions has improved significantly, with the overall NPL ratio decreasing from 6.1% as of December 31, 2007 to 1.0% as of December 31, 2012.

Strengthened Regulation and Supervision

In recent years, the CBRC and other PRC regulatory authorities have promulgated a number of regulatory measures in an effort to enhance the regulation and supervision of the banking industry. Such measures have been targeted at, among other things, improving corporate governance, enhancing risk management, strengthening supervision over capital adequacy, enhancing the regulation of wealth management products and improving the regulation of related-party transactions. In particular, following the issuance of Basel III in December 2010, on April 27, 2011, the CBRC issued new guidelines setting more stringent capital adequacy, leverage, liquidity and loan loss provisioning requirements for PRC banks in accordance with the reform of China’s banking industry and the related regulatory framework. On June 7, 2012, the CBRC further issued the New Capital Adequacy Regulations (Provisional), which set a stricter definition of capital, expanded the risk coverage of capital and enhanced the capital constraint mechanism of commercial banks. In addition, the regulation reduced the risk-weighting of small and micro-enterprise loans and retail loans, which is expected to

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lower the credit costs of commercial banks in these areas and lead commercial banks to offer stronger credit support to small and micro enterprises and for personal consumption. For further information, see the section entitled “Supervision and Regulation.”

Increasing Importance of SME Banking

The provision of banking services to SMEs has historically been the primary business of China’s city commercial banks and rural cooperative financial institutions. In recent years, the Five Largest State-owned Commercial Banks and Nation-wide Joint Stock Commercial Banks have also placed increasing emphasis on SME banking. According to the Development Research Center of the State Council, as of December 31, 2011, there were approximately 50 million registered SMEs, accounting for 98% of the total number of enterprises registered in China, and contributing about 60% of the national GDP in 2011. However, SME demand for financing has not been satisfied. According to the PBOC, as of December 31, 2011, loans to SMEs amounted to RMB21.8 trillion, representing only 39.7% of total corporate loans. Over the past few years, the Chinese government has promulgated various policies and notices to encourage the provision of innovative financial products and credit services to SMEs and increased loans to SMEs. According to the PBOC, loans to SMEs increased by 18.6% from December 31, 2010 to December 31, 2011, while total bank loans increased by only 14.3%.

Increasing Demand for Retail Banking and Wealth Management Products and Services

China’s per capita income levels have increased rapidly in recent years. From 2007 to 2012, China’s per capita disposable income of urban households increased from RMB13,786 to RMB24,565, representing a CAGR of 12.2%. The growth of China’s per capita income levels has brought about changes in lifestyle and increased consumption, resulting in growing demand for diversified retail banking products and services such as personal consumption loans and personal business loans, which have become the major growth drivers for China’s commercial banks. According to the PBOC, total retail loans increased from approximately RMB5,068 billion as of December 31, 2007 to approximately RMB16,138 billion as of December 31, 2012, and the proportion of retail loans to total loans increased from 18.2% to 24.0% during the same period. In addition, demand for wealth management services has increased with growth in China’s personal wealth, and many commercial banks have focused on providing customized and professional wealth management services to mid- to high-end customers. We believe that China’s retail banking business will continue to show high growth potential.

Increasing Importance of Electronic Banking Services

The continuing development of Internet technology and banking information systems in China has enabled Chinese commercial banks to develop new types of self-service banking products and services through electronic banking, or electronic banking, systems such as internet and phone banking. By integrating their physical and electronic networks and services, banks can offer customers more convenient traditional banking services as well as more sophisticated and innovative products. Electronic banking has opened broad new channels for Chinese commercial banks to expand the scope and reach of their banking businesses. According to the 2012 China Financial Certification Authority, among active users, approximately 56% of retail banking transactions and 66% of corporate banking transactions in China in 2012 were completed through electronic channels.