Our business is subject to extensive regulation and supervision under the banking and other laws and regulations of the PRC. In general, these laws and regulations are intended for the protection of our customers and depositors and not for the protection of our bank or our shareholders. Set forth below are brief descriptions of selected laws and regulations applicable to us. These descriptions are not intended to be a comprehensive description of all laws and regulations to which we are subject or to be complete descriptions of the laws and regulations discussed. The descriptions of statutory and regulatory provisions are qualified in their entirety by reference to the particular statutes and regulations. Changes in applicable statutes, regulations or regulatory policy may have a material effect on our bank and our business.

OVERVIEW

The PRC banking industry is highly regulated. The principal regulatory authorities in the PRC banking industry include the CBRC and the PBOC. The CBRC is responsible for supervising and regulating banking institutions operating in China, and the PBOC, as the central bank, is responsible for formulating and implementing monetary policies. The principal laws and regulations relating to the PRC banking industry include the PRC Commercial Banking Law, the PRC PBOC Law, the PRC Banking Supervision and Regulatory Law, and the rules and regulations promulgated under these laws.

PRINCIPAL REGULATORS

CBRC

The CBRC is the principal regulator of banking institutions operating in the PRC, including commercial banks, policy banks, urban credit cooperatives, rural credit cooperatives and certain non-banking financial institutions, such as financial asset management companies, trust and investment companies, and financial leasing companies. The CBRC is also responsible for the supervision and regulation of the entities established by domestic financial institutions outside the PRC and the overseas operations of the above-mentioned banking and non-banking financial institutions. According to the PRC Banking Supervision and Regulatory Law and relevant regulations, the CBRC's primary responsibilities include:

- formulating and promulgating rules and regulations governing banking institutions and their activities;
- examining and approving the establishment, change and termination of banking institutions and their scope of business, as well as granting banking licenses to commercial banks and their branches;
- regulating the business activities of banking institutions, including their products and services;
- approving and overseeing qualification requirements for directors and senior management of banking institutions;
- setting guidelines and standards for prudent risk management, internal control, capital adequacy, asset quality, allowance for impairment losses, risk concentration, related party transactions and liquidity requirements for banking institutions;
- conducting on-site examinations and off-site surveillance of the business activities and risk levels of banking institutions;

- imposing integrated supervision on banking institutions;
- establishing emergency handling system with relevant authorities and formulating emergency handling plans;
- imposing corrective and punitive measures for violations of applicable banking regulations; and
- drafting and publishing statistics and financial statements of national banking institutions.

The CBRC, through its head office in Beijing and offices throughout the PRC, monitors the operations of commercial banks and their branches through on-site examinations and off-site surveillance. On-site examinations generally include inspecting a banking institution's business premises and electronic data system, reviewing documents and materials maintained by the banking institution and interviewing the banking institution's employees and, requesting the senior management and directors to clarify significant issues relating to the banking institution's operations or risk management. Off-site surveillance generally involves the review of business reports, financial statements and other reports regularly submitted by banking institutions to the CBRC.

If a banking institution is not in compliance with an applicable banking regulation, the CBRC is authorized to impose corrective and punitive measures, including fines, suspension of certain businesses and cessation of approving new businesses, restrictions on dividends and asset transfers and suspension of new branch opening. In severe cases or if a bank fails to take corrective action within the time period specified by the CBRC, the CBRC may suspend the bank's operations for rectification and revoke its operating license. In the event of a crisis or failure within a banking institution that may materially affect the legitimate interests of depositors and other clients, the CBRC may assume management control over, or arrange for the restructuring of the banking institution.

PBOC

As the central bank of the PRC, the PBOC is responsible for formulating and implementing monetary policies and maintaining the stability of the PRC financial markets. According to the PRC PBOC Law and relevant regulations, the PBOC is empowered to, among others:

- formulate and implement monetary policies in accordance with the laws;
- issue Renminbi and administer its circulation;
- regulate the inter-bank lending market and the inter-bank bond market;
- implement foreign exchange controls and regulate the inter-bank foreign exchange market;
- regulate the gold market;
- hold, administer and manage state reserves of foreign exchange and gold;
- manage the national treasury;
- safeguard the payment and clearing systems; and
- guide and supervise the anti-money laundering efforts of financial institutions and monitor fund transfers for compliance with anti-money laundering regulations.

MOF

The MOF, a ministry under the State Council, is responsible for state finance, taxation, accounting and the management of state-owned financial assets. The MOF regulates the performance review and compensation mechanism of senior management of state-controlled banks, and monitors the implementation of the China Accounting Standards for Business Enterprises (企業會計準則) and the Financial Rules for Financial Enterprise (金融企業財務規則) in the banking industry. The MOF's primary responsibilities include:

- promulgating and implementing financial and taxation strategies, plans, policies and reform measures;
- drafting regulations in respect of fiscal, finance and accounting management;
- managing state-owned assets of financial enterprises and administering the appraisal of state-owned assets; and
- supervising the implementation of financial and tax rules and policies, reporting critical issues in the management of fiscal revenue and expenditure and managing the offices of financial supervising commissioners.

Other Regulatory Authorities

In addition to the above regulators, commercial banks in the PRC are also subject to supervision and regulation by other regulatory authorities, including, but not limited to, the SAFE, the CSRC, the CIRC, the NAO, the SAT and the SAIC.

We had materially complied with the relevant rules and regulations and obtained all material licenses, approvals, permits and certificates from the competent regulatory authorities during the Track Record Period and up to the Latest Practicable Date. King & Wood Mallesons, our PRC legal adviser, to the best of its knowledge after due inquiry, is of the view that we had materially complied with all the relevant rules and regulations and obtained all material licenses, approvals, permits and certificates from competent regulatory authorities during the Track Record Period and up to the Latest Practicable Date.

LICENSING REQUIREMENTS

Basic Requirements

The establishment of a city commercial bank requires the CBRC's approval and issuance of an operating license. In general, the CBRC will not approve an application to establish a city commercial bank unless certain conditions are satisfied, including, among others:

- articles of association complying with relevant requirements of the PRC Commercial Banking Law and the PRC Company Law;
- registered capital meeting the statutory requirements, including RMB100 million registered capital and paid-up capital;
- non-performing loan ratio of no higher than 10%;
- directors and senior management possessing the requisite qualifications and practitioners familiarizing with the banking business;

- a sound and effective corporate governance and internal control system; and
- business premises, security measures and other facilities suitable for business operation.

Significant Changes

City commercial banks are required to obtain approval from the CBRC or its offices approval to undertake significant changes, including but not limited to:

- establishment of a branch;
- change of name or location of headquarters or a branch or sub-branch;
- change of registered capital;
- change of shareholders holding more than 5% of the bank's total capital or shares;
- amendment to the articles of association;
- termination of headquarters or a branch; and
- change of business scope.

The CBRC issued the Circular of the General Office of the CBRC on Improving Rural Financial Services in 2013 (中國銀監會辦公廳關於做好2013年農村金融服務工作的通知) (Yin Jian Ban Fa [2013] No.51), which allows a city commercial bank to apply for the establishment of branches within its home jurisdiction and adjacent regions with close economic connection but not out of their home provinces.

Scope of Business

Under the PRC Commercial Banking Law, commercial banks in China are permitted to engage in any or all of the following activities:

- taking deposits from the public;
- making short-term, medium-term and long-term loans;
- handling domestic and overseas payment settlements;
- accepting and discounting bills;
- issuing financial bonds;
- acting as agents to issue, honor and underwrite government bonds;
- trading government bonds and financial bonds;
- engaging in inter-bank lending;
- engaging in foreign exchange trading as principals or as agents;
- engaging in bank card business;
- providing letters of credit and guarantee services;
- collecting and making payment as agents and acting as insurance agents;
- providing safe deposit box services; and
- other businesses approved by the banking regulatory authorities of the State Council.

Commercial banks in the PRC are required to stipulate their scope of business in their articles of association and submit their articles of association to the CBRC for approval. Subject to approval by the PBOC and the SAFE, commercial banks can engage in settlement and sales of foreign exchange.

REGULATION OF PRINCIPAL COMMERCIAL BANKING ACTIVITIES

Lending

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

To control credit risks, commercial banks are required to establish a strict and centralized credit risk management system, adopt standard operating procedures and arrange qualified risk control personnel. In addition, commercial banks are required to comply with specified limitations on loans to certain industry sectors and customers. The CBRC and other relevant authorities have issued guidelines and measures to control credit risk associated with, among others, borrower concentration, real estate loans, automobile loans, merger and acquisition loans, project financing and local government financing vehicles. For example:

- Under the Interim Measures for the Administration of Fixed Asset Loans (固定資產貸款管理暫行辦法) issued by the CBRC, commercial banks are required to improve their internal control system, manage the entire lending process and fully understand their clients and projects. They also need to establish a credit risk management system for fixed asset loans, clearly define the responsibilities of relevant departments for loan management and establish an evaluation and accountability mechanism for each loan management position. To reduce the risk of misappropriation of funds, commercial banks are also required to strengthen the management of the use of loans and the loan disbursement process through enhanced examination upon loan disbursement and additional disbursement methods such as entrusted payment. The measures also require commercial banks to include in the loan agreement terms that are essential to control credit risk, establish a loan quality monitoring system and a loan risk alert system to monitor, and manage their loan accounts on an on-going basis.

- Under the Interim Measures for the Administration of Working Capital Loans (流動資金貸款管理暫行辦法) issued by the CBRC, commercial banks are required to establish effective internal control mechanism and risk management system to monitor the use of working capital loans and obtain comprehensive information from clients. They are also required to reasonably estimate the borrower's working capital demand and prudently determine credit limits for working capital loans to the borrower and the amount of each loan. Banks cannot grant working capital loans that exceed the borrower's actual need. In addition, commercial banks are required to clearly specify in the loan agreement the use of the loan. Working capital loans cannot be used for fixed asset or equity investment, or for other purposes prohibited by the government.

- Under the Interim Measures for the Administration of Personal Loans (個人貸款管理暫行辦法) promulgated by the CBRC, commercial banks are required to set up an effective system to manage the entire retail lending process and a risk limit management system. The measures also set out certain conditions for applying retail loans and rules and policies on the uses of retail loans.

- Under the Guidelines on the Management of Risks of Credit Granted by Commercial Banks to Group Borrowers (商業銀行集團客戶授信業務風險管理指引) issued by the CBRC, a commercial bank is required to diversify its credit risk if the total credit granted to a single group customer accounts for 15% or more of the bank's net capital.

- Under the Guidelines on the Management of Risks of Real Estate Credit Granted by Commercial Banks (商業銀行房地產貸款風險管理指引) issued by the CBRC, a commercial bank is required to establish real estate credit review and approval criteria, risk management and internal control systems to manage the market risk, legal risk and operational risk in connection with real estate loans. Commercial banks are not allowed to extend loans in any form to real estate development projects without state-owned land use right certificate and other relevant permissions. In addition, according to the Notice on Firmly Curbing Excessive Rise of Housing Prices in Some Cities (關於堅決遏制部分城市房價過快上漲的通知) promulgated by the State Council on April 17, 2010, commercial banks need to strengthen the pre-loan investigation and post-disbursement management of loans to real estate development enterprises. For real estate development enterprises that possess idle lands or trade lands for profit, commercial banks cannot extend loans for their new development projects.

- Under the Notice of the PBOC and the CBRC on Issues concerning the Improvement of Differential Housing Credit Policies (中國人民銀行、中國銀行業監督管理委員會關於完善差別化住房信貸政策有關問題的通知) and the Notice of the General Office of the CBRC on Issues concerning the Improvement of Housing Financial Services and the Reinforcement of Risk Management (中國銀監會辦公廳關於做好住房金融服務加強風險管理的通知), commercial banks are required to implement differentiated housing credit policies, which include, among other requirements, suspending housing loan extensions to families for their purchase of the third set or more sets of housing. Under the Notice of the General Office of the State Council on Issues concerning the Further Enhancing the Regulation and Control of Real Estate Market (國務院辦公廳關於進一步做好房地產市場調控工作有關問題的通知), commercial banks are required to strictly implement credit policies on residential housing loans, including the requirements to keep the down payment ratio for the second set of housing of any family at or above 60%, and the loan interest rate at or above 1.1 times of the benchmark interest rate. In addition, on February 26, 2013, the State Council promulgated the Notice of the General Office of the State Council on Continuing Regulation and Control of Real Estate Market (國務院辦公廳關於繼續做好房地產市場調控工作的通知), which requires banking institutions to carry on strict implementation of the differentiated housing credit policies, further implement the policy of down payment ratio and lending rate for loan of the first-set housing, rigidly tighten the credit policies for the second set (or more sets) of housing, and strictly impose a 20% personal income tax on the profit generated from sale of residential property.

- Under the Automobile Loan Management Measures (汽車貸款管理辦法) jointly issued by the PBOC and the CBRC, the amount of loans for personal-use automobiles, commercial automobiles and second-hand automobiles cannot exceed 80%, 70% and 50%, respectively, of the purchase price of such automobiles.

- Under the Guidelines on the Management of Risks of Merger and Acquisition Credit Granted by Commercial Banks (商業銀行並購貸款風險管理指引) issued by the CBRC, a commercial bank cannot finance mergers and acquisitions unless it has, among others: (i) a sound risk management mechanism and an effective internal control mechanism; (ii) specific allowance adequacy ratio for loan impairment loss of no less than 100%; (iii) capital adequacy ratio of no less than 10%; (iv) general reserve balance of no less than 1% of the loan balance for the same period; and (v) a professional team for due diligence and risk assessment of the merger and acquisition loans.

- Under the Guidelines on Project Financing Business (項目融資業務指引) issued by the CBRC, banking institutions are required to establish sound operation procedures and risk management mechanism for their project financing business. Banking institutions need to fully identify and evaluate risks during project development phase and operation phase, including policy risk, financing risk, operational risk, exchange rate risk, environmental risk and other related risks. Banking institutions also need to evaluate borrowers' risk of default based on the borrowers' technical and financial capabilities and repayment sources. In addition, banking institutions shall require borrowers to set up a designated account to receive all revenues from projects, monitor the account closely and take actions upon discovery of unusual fund movements.

- Under the Notice of the MOF, NDRC, PBOC and the CBRC on Implementing Several Matters relating to the Circular of the State Council on Relevant Issues concerning Strengthening the Administration on Local Government Financing Vehicles (財政部、國家發展和改革委員會、中國人民銀行、中國銀行業監督管理委員會關於貫徹＜國務院關於加強地方政府融資平臺公司管理有關問題的通知＞相關事項的通知), the Guiding Opinions of the CBRC on Strengthening the Risk Management of Loans to Financing Vehicles (中國銀監會關於加強融資平臺貸款風險管理的指導意見), the Notice on Practical Implementing the Loan Risk Control over the Local Government Financing Vehicles in 2011 (關於切實做好2011年地方政府融資平臺貸款風險監管工作的通知) issued by the CBRC and the Guiding Opinions of the CBRC on Strengthening the Loan Risk Control over the Local Government Financing Vehicles in 2011 (中國銀監會關於加強2012年地方融資平臺貸款風險監管的指導意見), banking institutions are required to strictly implement the pre-loan investigation, examination at granting and post-loan inspection mechanisms for the loans to local government financing vehicles, prudently grant and manage loans to financing vehicles, and classify and adjust such loans to accurately reflect and assess the risk status of such loans. Banking institutions need to consider the overall indebtedness of local government and the potential risk and expected losses of loans to financial vehicles. In addition, banks are required to make provisions for loan losses and adopt appropriate risk weighing based on the capital adequacy level of such loans, as reflected by full coverage, basic coverage, semi-coverage and non-coverage of such loans by cash flows. On April 9, 2013, the CBRC promulgated the Guiding Opinions of the CBRC on Strengthening the Loan Risk Control over the Local Government Financing Vehicles in 2013 (中國銀監會關於加強2013年地方政府融資平臺貸款風險監管的指導意見), which requires a banking institution to stop granting new loans to financing vehicles, and for financial vehicles with a cash flow coverage ratio of below 100% or an asset-to-liability ratio of higher than 80%, to keep the amount of loans to such vehicles at or below the amount in the prior year and actively recover such loans.

In addition, on March 21, 2013, the CBRC issued the Opinions on Enhancing Financial Services for Micro-enterprises (中國銀監會關於深化小微企業金融服務的意見), which requires commercial banks to further improve financial services for micro-enterprises. In particular, it encourages small and medium-sized banks to proactively adjust their credit portfolios and focus on supporting the development of micro-enterprises and regional economy. The General Office of the State Council of the PRC issued the Guidelines on Financial Support for the Adjustment, Transformation and Upgrading of Economic Structure (國務院辦公廳關於金融支持經濟結構調整和轉型升級的指導意見) on July 1, 2013 and the Opinions on Providing Financial Support to Small Business (國務院辦公廳關於金融支持小微企業發展的實施意見) on August 8, 2013, which encourage financial institutions to provide comprehensive financial services to support the development of micro-enterprises.

Foreign Exchange

Commercial banks are required to obtain approvals from the PBOC and the SAFE to conduct foreign exchange businesses. Under the PRC's anti-money laundering laws and regulations, PRC financial institutions are required to report to the SAFE on a timely basis any large or suspicious foreign exchange transactions they encounter.

Insurance

Commercial banks in the PRC are not permitted to underwrite insurance policies, but are permitted to sell insurance products as agent through their distribution networks. Commercial banks that provide insurance agency service are required to comply with applicable rules issued by the CIRC. For example, each branch of a commercial bank cannot sell insurance products for more than three insurance companies. Otherwise, it needs to report to the local office of the CBRC. On March 7, 2011, the CIRC and the CBRC jointly issued the Guidelines on the Supervision and Regulation of Insurance Agency Business Conducted by Commercial Banks (商業銀行代理保險業務監管指引), which require commercial banks to obtain a license from the CIRC before engaging in insurance agency business through their branches.

Wealth Management

On September 24, 2005, the CBRC issued the Interim Measures on Administration of the Personal Wealth Management Services of Commercial Banks (商業銀行個人理財業務管理暫行辦法), which requires commercial banks to obtain the CBRC's approval to provide return-guaranteed wealth management plans, new investment products with guaranteed investment return aimed at conducting personal wealth management business and certain other personal wealth management businesses. For other personal wealth management services, commercial banks only need to file a report with the CBRC. Commercial banks are also subject to certain restrictions on personal wealth management products. In addition, under the Guidelines for the Risk Management of the Personal Wealth Management Services of Commercial Banks (商業銀行個人理財業務風險管理指引) issued by the CBRC on September 24, 2005, commercial banks are required to establish an auditing and reporting system in respect of their wealth management services and to report any material risk management issues to the relevant authorities. In recent years, the CBRC issued a series of regulations in an effort to further improve the reporting mechanism and risk control of personal wealth management services provided by commercial banks. To further standardize and regulate the sales of wealth management products, the CBRC issued the Administrative Measures on the Sales of Wealth Management Products of

Commercial Banks (商業銀行理財產品銷售管理辦法) on August 28, 2011, which requires commercial banks to prudently operate and timely disclose their wealth management business to fully protect the interests of consumers.

On April 17, 2006, the PBOC, the CBRC and the SAFE jointly promulgated the Interim Administrative Measures for Commercial Banks to Provide Overseas Financial Management Services (商業銀行開辦代客境外理財業務管理暫行辦法), to permit duly licensed commercial banks to make overseas investments using funds from investors in pre-approved financial products on behalf of domestic institutions and individuals.

On March 25, 2013, the CBRC issued the Notice on the Regulation of the Investment and Operation of Wealth Management Business by Commercial Banks (中國銀監會關於規範商業銀行理財業務投資運作有關問題的通知) to enhance the regulation of the wealth management business of commercial banks. This notice requires commercial banks to clearly link each wealth management product with its underlying investment asset. In addition, the balance of wealth management funds invested by a bank in non-standard debt-based assets (i.e. debt-based assets that are not traded in inter-bank markets or on securities exchanges) cannot, at any time, exceed 35% of the balance of the bank's wealth management products, or 4% of the bank's total assets as disclosed in its annual audit report for the prior fiscal year, whichever is lower.

Electronic Banking

The CBRC requires that each commercial bank seeking to establish an electronic banking business establish sound risk management and internal control systems and adopt security measures to ensure the confidentiality of clients' information and prevent unauthorized use of electronic banking accounts. In addition, the applicant should not have experienced any major system failure relating to its primary information management and operation systems in the year prior to its application.

Proprietary Investments

In general, commercial banks in the PRC are prohibited from making domestic investments other than in debt instruments issued by the PRC government and financial institutions, short-term commercial paper, medium-term notes and corporate bonds issued by qualified non-financial institutions, and certain derivative products. Unless approved by the PRC government, commercial banks in the PRC are prohibited from engaging in trust investment and securities businesses, investing in real property not for their own use, or investing in non-banking financial institutions and enterprises.

Derivatives

Under the Provisional Administrative Measures on Derivatives Business of Financial Institutions in Banking Industry (銀行業金融機構衍生產品交易業務管理暫行辦法), commercial banks in the PRC seeking to conduct derivatives business must obtain prior approval from the CBRC by meeting relevant qualification requirements. Commercial banks need to obtain a qualification from the CBRC before engaging in derivative product transactions relating to foreign currency, stock and commodities and derivative product transactions traded on exchanges. In addition, commercial banks need to follow the rules of relevant foreign exchanges to trade derivative products relating to foreign stock and commodities or traded on foreign exchanges.

Financial Innovation

On December 5, 2006, the CBRC promulgated the Guidelines on Financial Innovation of Commercial Banks (商業銀行金融創新指引) to encourage Chinese commercial banks to prudently engage in financial innovation by developing new businesses and products, improving existing businesses and products, expanding scope of business, improving cost efficiency and profitability and reducing reliance on the lending business. To facilitate financial innovation by Chinese commercial banks, the CBRC has indicated that it will streamline the examination and approval procedures for new products.

PRICING OF PRODUCTS AND SERVICES

Interest Rates for Loans and Deposits

Under the PRC Commercial Banking Law, banks are required to set interest rates on RMB-denominated loans and deposits within permitted ranges of the benchmark rates set by the PBOC. In recent years, the PBOC has gradually liberalized its regulation of interest rates, giving banks more discretion to determine interest rates for RMB-denominated loans and deposits. The following table sets forth, for the periods indicated, the permitted range of interest rates for RMB-denominated loans and deposits.

	Loans Since July 20, 2013[(1)]	Deposits Since June 8, 2012[(2)]
Maximum interest rates	No cap	110% of the PBOC benchmark rate, except for negotiated deposits
Minimum interest rates	No minimum	No minimum

Notes:

(1) From March 17, 2005 to August 18, 2006, interest rates for residential mortgage loans were regulated in the same way as most other types of loans. From August 19, 2006 to October 26, 2008, the minimum interest rates for personal commercial residential mortgage loans were 85% of the PBOC loan benchmark interest rate. Since October 27, 2008, the minimum interest rates for personal commercial residential mortgage loans have been changed to 70% of the PBOC loan benchmark interest rate. Since April 17, 2010, the minimum interest rates for the mortgage loans of the second residential property purchased by a PRC family have been changed to 110% of the PBOC loan benchmark interest rate. On July 20, 2013, the PBOC removed the minimum interest rate requirement for new loans provided by commercial banks, except that the minimum interest rates for new residential mortgage loans remained at 70% of the PBOC benchmark lending rates.

(2) Beginning on October 29, 2004, commercial banks in the PRC are permitted to set their own interest rates on RMB deposits so long as such interest rates are not higher than the relevant PBOC benchmark interest rates. However, these restrictions do not apply to interest rates on negotiated deposits, which are deposits by domestic insurance companies in amounts of RMB30 million or more or deposits by the provincial social security agencies in amounts of RMB500 million or more, both with a term longer than five years, or deposits of China Postal Savings Bank of RMB30 million or more with a term longer than three years (exclusive of three years).

From August 19, 2006 to July 6, 2012, the PBOC adjusted the benchmark interest rate for RMB-denominated loans and the benchmark interest rate for RMB-denominated deposits on 19 and 18 separate occasions, respectively. Since then and as of the Latest Practicable Date, the PBOC has not adjusted the benchmark interest rate for RMB-denominated loans and the benchmark interest rate for RMB-denominated deposits.

The following table sets forth the PBOC benchmark interest rates for RMB-denominated loans since August 19, 2006.

Date of adjustment	Six months or less	Six months to one year (inclusive of one year)	One to three years (inclusive of three years)	Three to five years (inclusive of five years)	More than five years	Housing Provident Fund Loans: Five years or less	Housing Provident Fund Loans: More than five years
	(Interest rate per annum %)						
August 19, 2006	5.58	6.12	6.30	6.48	6.84	4.14	4.59
March 18, 2007	5.67	6.39	6.57	6.75	7.11	4.32	4.77
May 19, 2007	5.85	6.57	6.75	6.93	7.20	4.41	4.86
July 21, 2007	6.03	6.84	7.02	7.20	7.38	4.50	4.95
August 22, 2007	6.21	7.02	7.20	7.38	7.56	4.59	5.04
September 15, 2007	6.48	7.29	7.47	7.65	7.83	4.77	5.22
December 21, 2007	6.57	7.47	7.56	7.74	7.83	4.77	5.22
September 16, 2008	6.21	7.20	7.29	7.56	7.74	4.59	5.13
October 9, 2008	6.12	6.93	7.02	7.29	7.47	4.32	4.86
October 30, 2008	6.03	6.66	6.75	7.02	7.20	4.05	4.59
November 27, 2008	5.04	5.58	5.67	5.94	6.12	3.51	4.05
December 23, 2008	4.86	5.31	5.40	5.76	5.94	3.33	3.87
October 20, 2010	5.10	5.56	5.60	5.96	6.14	3.50	4.05
December 26, 2010	5.35	5.81	5.85	6.22	6.40	3.75	4.30
February 9, 2011	5.60	6.06	6.10	6.45	6.60	4.00	4.50
April 6, 2011	5.85	6.31	6.40	6.65	6.80	4.20	4.70
July 7, 2011	6.10	6.56	6.65	6.90	7.05	4.45	4.90
June 8, 2012	5.85	6.31	6.40	6.65	6.80	4.20	4.70
July 6, 2012	5.60	6.00	6.15	6.40	6.55	4.00	4.50

The following table sets forth the PBOC benchmark interest rates for RMB-denominated deposits since August 19, 2006.

Date of adjustment	Demand deposits	Time deposits: Three months	Six months	One year	Two years	Three years	Five years
	(Interest rate per annum %)						
August 19, 2006	0.72	1.80	2.25	2.52	3.06	3.69	4.14
March 18, 2007	0.72	1.98	2.43	2.79	3.33	3.96	4.41
May 19, 2007	0.72	2.07	2.61	3.06	3.69	4.41	4.95
July 21, 2007	0.81	2.34	2.88	3.33	3.96	4.68	5.22
August 22, 2007	0.81	2.61	3.15	3.60	4.23	4.95	5.49
September 15, 2007	0.81	2.88	3.42	3.87	4.50	5.22	5.76
December 21, 2007	0.72	3.33	3.78	4.14	4.68	5.40	5.85
October 9, 2008	0.72	3.15	3.51	3.87	4.41	5.13	5.58
October 30, 2008	0.72	2.88	3.24	3.60	4.14	4.77	5.13
November 27, 2008	0.36	1.98	2.25	2.52	3.06	3.60	3.87
December 23, 2008	0.36	1.71	1.98	2.25	2.79	3.33	3.60
October 20, 2010	0.36	1.91	2.20	2.50	3.25	3.85	4.20
December 26, 2010	0.36	2.25	2.50	2.75	3.55	4.15	4.55
February 9, 2011	0.40	2.60	2.80	3.00	3.90	4.50	5.00
April 6, 2011	0.50	2.85	3.05	3.25	4.15	4.75	5.25
July 7, 2011	0.50	3.10	3.30	3.50	4.40	5.00	5.50
June 8, 2012	0.40	2.85	3.05	3.25	4.10	4.65	5.10
July 6, 2012	0.35	2.60	2.80	3.00	3.75	4.25	4.75

The PBOC generally does not regulate interest rates for foreign currency-denominated loans or deposits, except for U.S. dollar-, Hong Kong dollar-, Japanese Yen- and Euro-denominated deposits of less than US$3 million (or the equivalent) and with a term of one year or less. For these small sized short-term foreign currency deposits, the maximum interest rates may not exceed the PBOC benchmark interest rates.

Under the Notice of Further Promoting Market-Oriented Reform of Interest Rates (中國人民銀行關於進一步推進利率市場化改革的通知) issued by the PBOC, commercial banks may determine the discount rates for their discounted bills from July 20, 2013.

Pricing for Fee- and Commission-based Products and Services

Under the Tentative Administrative Measures on Pricing of Commercial Banking Services (商業銀行服務價格管理暫行辦法), the CBRC and the NDRC specify the types of banking services that are subject to governmental pricing guidelines, which include but is not limited to, basic RMB settlement services, such as bank drafts, bank acceptance drafts, promissory notes, checks, remittances, entrusted collection and collection with acceptance. Commercial banks may determine prices for other products and services based on market conditions, as long as they report to the CBRC at least 15 business days prior to the implementation of any new fees; and post such fees at their business premises at least 10 business days prior to such implementation. In recent years, the CBRC, the PBOC and the NDRC have taken initiatives to waive or reduce fees charged by commercial banks on certain fee- and commission-based products and services.

STATUTORY DEPOSIT RESERVE AND SURPLUS DEPOSIT RESERVE

Commercial banks are required to maintain a percentage of their total deposits as reserves with the PBOC to ensure they have sufficient liquidity to meet customer withdrawals. As of the Latest Practicable Date, we were required to maintain a deposit reserve of no less than 18.0% of our total RMB deposits according to the relevant requirements of the PBOC.

The following table sets forth the historical data for the RMB statutory deposit reserve ratio applicable to us for recent years, which we have complied with. The PBOC made no adjustment to the required deposit reserve ratio from May 19, 2012 up to the Latest Practicable Date.

Date of adjustment	Renminbi required reserve ratios(%)
January 25, 2008	15.0
March 25, 2008	15.5
April 25, 2008	16.0
May 20, 2008	16.5
June 15, 2008	17.0
June 25, 2008	17.5
September 25, 2008	16.5
October 15, 2008	16.0
December 5, 2008	14.0
December 25, 2008	13.5
January 18, 2010	14.0
February 25, 2010	14.5
May 10, 2010	15.0
November 16, 2010	15.5
November 29, 2010	16.0
December 20, 2010	16.5
January 20, 2011	17.0
February 24, 2011	17.5
March 25, 2011	18.0
April 21, 2011	18.5
May 18, 2011	19.0
June 20, 2011	19.5
December 5, 2011	19.0
February 24, 2012	18.5
May 18, 2012	18.0

SUPERVISION OVER CAPITAL ADEQUACY

Capital Adequacy Guidelines

Prior to January 1, 2013, we were subject to the Capital Adequacy Regulations (商業銀行資本充足率管理辦法). The Capital Adequacy Regulations required commercial banks to maintain a minimum capital adequacy ratio of 8% and a minimum core capital adequacy ratio of 4%. In addition, it required commercial banks to calculate their capital adequacy ratios after taking into account adequate allowances made for various losses, such as the allowance for loan losses.

In accordance with the Capital Adequacy Regulations, the capital adequacy ratio and the core capital adequacy ratio were calculated under PRC GAAP as follows:

$$\text{Capital adequacy ratio} = \frac{\text{Capital} - \text{capital deductions}}{\text{Risk-weighted assets} + 12.5 \times \text{capital charge for market risk}} \text{ X } 100\%$$

$$\text{Core capital adequacy ratio} = \frac{\text{Core capital} - \text{core capital deductions}}{\text{Risk-weighted assets} + 12.5 \times \text{capital charge for market risk}} \text{ X } 100\%$$

In the preceding formula:

Capital	includes both core capital and supplementary capital.
Core Capital	includes paid-in capital or common shares, capital reserve, surplus reserve, general reserve, retained earnings and minority interests.
Supplementary Capital	includes up to 70% of the reserve for revaluation, general provisions, preference shares, qualifying convertible bonds, qualifying long-term subordinated debt, qualifying hybrid capital bonds and changes in fair value. (any positive change of no more than 50% to the fair value of available-for-sale bonds that have been included as part of the owners' equity interests may be calculated as supplementary capital; and any negative change to the fair value shall be deducted from supplementary capital in full. When a commercial bank calculates its capital adequacy ratio, it shall transfer the fair value of available-for-sale bonds that have been included in the capital reserves from the core capital into the supplementary capital).
Capital deductions	include goodwill, capital investments in non- consolidated financial institutions, and equity investments in non-banking financial institutions and enterprises and capital investment in real estate not for self-use.
Core capital deductions	include goodwill, 50% of capital investments in non- consolidated financial institutions, and 50% of equity investments in non-banking financial institutions and enterprises and capital investment in real estate not for self-use.
Risk-weighted assets	refer to the assets calculated by multiplying the value of on- and off-balance-sheet assets by their corresponding risk weightings, after taking into account risk-mitigating factors.
Market risk capital	refers to the capital reserve that a bank is required to maintain for the market risks relating to its assets. Domestic banks with total trading book positions greater than the lower of 10% of the bank's total on- and off-balance sheet assets and over RMB8,500 million are required to make provisions for market risk capital.

The following table sets forth risk weightings for different assets.

Risk Weighting	Assets
0%	• cash on hand • gold • claims on PRC incorporated commercial banks with an original maturity of four months or less • claims on the PRC central government or deposits at the PBOC • claims on PBOC • claims on PRC policy banks • bonds issued by PRC financial asset management companies for the purpose of acquiring non-performing loans from state-owned banks • claims on non-PRC central governments or central banks in countries or regions rated AA- or above[1] • claims on multilateral development banks
20%	• claims on PRC incorporated commercial banks with an original maturity of more than four months • claims on non-PRC commercial banks and securities companies incorporated in other countries or regions rated AA- or above[1]
50%	• personal residential mortgage loans • claims on public-sector enterprises invested by the PRC central government • claims on non-PRC public-sector enterprises invested by governments of countries or regions rated AA- or above[1]
100%	• all other assets

Note:
(1) These ratings refer to credit ratings of Standard & Poor's or the equivalent thereof.

Recent Regulatory Development on Capital Adequacy

Since January 1, 2013, we have been subject to the New Capital Adequacy Regulations (Provisional), which in view of the new international capital regulatory framework and the spirit of Basel II and Basel III, establish a unified and comprehensive regulatory system for capital adequacy, re-define the term "capital," expand the scope of capital risk coverage and set forth different regulatory requirements for commercial banks with different capital adequacy levels. Also, the rules set forth a new method for calculate the capital adequacy ratio and provide a transition period for Chinese commercial banks to meet their capital adequacy requirements progressively.

The new capital adequacy ratio can be summarized as follows:

$$\text{Capital adequacy ratio} = \frac{\text{Total capital} - \text{corresponding capital deduction}}{\text{Risk-weighted assets}} \times 100\%$$

$$\text{Tier-one Capital Adequacy Ratio} = \frac{\text{Tier-one capital} - \text{corresponding capital deduction}}{\text{Risk-weighted assets}} \times 100\%$$

$$\text{Core Tier-one Capital Adequacy Ratio} = \frac{\text{Core tier-one capital} - \text{corresponding capital deduction}}{\text{Risk-weighted assets}} \times 100\%$$

In the preceding formula:

Total capital	includes core Tier-one capital, additional Tier-one capital and Tier-two capital.
Core Tier-one capital	includes paid-in capital or ordinary shares, capital reserve, surplus reserve, general reserve, retained earnings and applicable portions of capital from minority shareholders.
Additional Tier-one capital	includes additional Tier-one capital instruments and their premiums and applicable portions of capital from minority shareholders. Additional tier-one capital instruments issued by commercial banks are subject to the criteria set forth in the New Capital Adequacy Regulations (Provisional).
Tier-two capital	includes Tier-two capital instruments and their premiums, over-provision for loan losses and applicable portions of capital from minority shareholders.
Corresponding capital deductions	include goodwill, other intangible assets (other than land use rights), net deferred-tax assets arising from operating losses, inadequate provision for impaired loans, gains from sales of asset securitization, net pension assets determined to be under beneficiary category, direct or indirect holding of the bank's own shares, and unrealized gains and losses arising from the change in the fair value of debts of commercial banks due to the change in the credit risk of the commercial banks; and minus any positive amount or plus any negative amount of reserve of cash flow generated from hedging for items not measured at their fair values on the balance sheet.
Risk-weighted assets	include credit risk weighted assets, market risk weighted assets and operational risk weighted assets. Commercial banks can adopt the weighted method or the internal ratings-based approach to measure credit risk weighted assets. Market risk weighted assets are measured by multiplying the required capital amount for market risk by 12.5. Calculation of market risk capital should take into consideration the interest rate risk and stock risk associated with the banks' trading accounts as well as exchange rate risk and commodity risk. Commercial banks may adopt the standard method or the internal model method to measure the required capital for market risk. Operational risk weighted assets are measured by multiplying the required capital amount for operational risk by 12.5. Commercial banks may adopt the basic indicator method, the standard method or the advanced measurement method to measure the required capital for operational risk.

In accordance with the New Capital Adequacy Regulations (Provisional), we are required to maintain a minimum core Tier-one capital adequacy ratio of 5.0%, a Tier-one capital adequacy ratio of 6.0% and a capital adequacy ratio of 8.0%, beginning January 1, 2013. Pursuant to the Notice of Interim Arrangement for Implementation of the New Capital Adequacy Regulations (《中國銀監會關於實施〈商業銀行資本管理辦法（試行）〉過渡期安排相關事項的通知》), the CBRC encourages the commercial banks who had satisfied the capital adequacy requirements in the New Capital Adequacy Regulations before the end of 2012 to continue to meet such requirements during the transition period, and the commercial banks who had failed to meet such requirements by the end of 2012 to gradually improve their capital adequacy during the transition period by satisfying the following year-by-year capital adequacy requirements:

Type of bank	Item	By the end of 2013	By the end of 2014	By the end of 2015	By the end of 2016	By the end of 2017	By the end of 2018
Systematically important banks	Core Tier-one capital adequacy ratio	6.5%	6.9%	7.3%	7.7%	8.1%	8.5%
	Tier-one capital adequacy ratio	7.5%	7.9%	8.3%	8.7%	9.1%	9.5%
	Capital adequacy ratio	9.5%	9.9%	10.3%	10.7%	11.1%	11.5%
Other banks	Core Tier-one capital adequacy ratio	5.5%	5.9%	6.3%	6.7%	7.1%	7.5%
	Tier-one capital adequacy ratio	6.5%	6.9%	7.3%	7.7%	8.1%	8.5%
	Capital adequacy ratio	8.5%	8.9%	9.3%	9.7%	10.1%	10.5%

We have already met the minimum capital adequacy requirements. As of June 30, 2013, our core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio were 9.24%, 9.25% and 11.90%, compared to the respective stipulated ratios 7.5%, 8.5% and 10.5% that we must meet by the end of 2018 under the New Capital Adequacy Regulations (Provisional). We regard capital management as an important aspect of our business. We monitor our capital ratios closely to ensure compliance with CBRC requirements. We plan to maintain our capital adequacy by increasing our share capital through the Global Offering, generating internal capital and issuing debts. We will also develop businesses that are more capital efficient, such as fee-based businesses, and will continue to closely monitor the return on our risk weighted assets.

Subordinated Debt and Subordinated Bonds

Pursuant to the Measures for Administration on Issuance of Subordinated Bonds of Commercial Banks (商業銀行次級債券發行管理辦法) jointly promulgated by the PBOC and the CBRC, a Chinese commercial bank may, upon approval by the CBRC, include subordinated bonds in the bank's supplementary capital. Subordinated bonds may be sold either in a public offering in the national inter-bank bond market or in a private placement. The balance of subordinated bonds issued by other banks and held by a Chinese commercial bank may not exceed 20% of its core capital. The PBOC regulates the issuance and trading of subordinated bonds in the inter-bank bond market.

On December 12, 2005, the CBRC issued the Notice Regarding the Issuance of Hybrid Capital Bonds by Commercial Banks for the Replenishment of Supplementary Capital (關於商業銀行發行混合資

本債券補充附屬資本有關問題的通知), permitting eligible commercial banks to issue hybrid capital bonds in the inter-bank market and include such bonds in their supplementary capital. The introduction of hybrid capital bonds in the PRC opened a new channel for commercial banks to replenish their supplementary capital and improve their capital adequacy ratio.

On October 18, 2009, the CBRC issued the Notice on Improving the Mechanism for Capital Replenishment of Commercial Banks (關於完善商業銀行資本補充機制的通知), which requires national commercial banks (including China Development Bank, the state-owned commercial banks and joint-stock commercial banks) and other commercial banks to maintain a core capital adequacy ratio of no less than 7% and 5%, respectively, if they seek to issue long-term subordinated debt to replenish their supplementary capital. The national commercial banks and other banks should not issue long-term subordinated debt which constitutes more than 25% and 30% of their respective core capital. To calculate their capital adequacy ratio, banks should fully deduct any long-term subordinated debt issued by other banks that they acquired after July 1, 2009.

The New Capital Adequacy Regulations (Provisional) issued by the CBRC on June 7, 2012 re-define the term “capital” to include core Tier-one capital, additional Tier-one capital and Tier-two capital. Under this regulation, non-qualified Tier-two capital instruments issued prior to September 12, 2010 may be included in regulatory capital before January 1, 2013, but should be reduced by 10% per annum starting from January 1, 2013 and excluded entirely from regulatory capital starting from January 1, 2022. Tier-two capital instruments issued by commercial banks from September 12, 2010 to January 1, 2013 that do not carry discounting or share conversion terms but meet other requisite criteria of relevant capital instruments may be included in regulatory capital prior to January 1, 2013, but should be reduced by 10% per annum starting from January 1, 2013 and excluded entirely from regulatory capital starting from January 1, 2022.

On November 29, 2012, the CBRC issued the Guidance on the Innovation of Capital Instruments by Commercial Banks (關於商業銀行資本工具創新的指導意見), according to which additional Tier-one and Tier-two capital instruments issued by a commercial bank after January 1, 2013 must contain a provision that requires such instruments to either be written down or converted into common stock upon the occurrence of a triggering event. A triggering event for additional Tier I instruments occurs when the core Tier-one capital adequacy ratio of the commercial bank falls to or below 5.125%. A Tier-two instrument triggering event occurs when the CBRC decides that a write-off or an equity conversion is necessary (without which the commercial bank would become non-viable) or the relevant authorities decide to effect a public sector capital injection or equivalent support (without which the commercial bank would become non-viable) whichever is earlier.

Small-business bonds

In October 2011, the CBRC issued the Supplementary Notice on Supporting Commercial Banks to Further Improve the Financing Services Offered to Small-businesses (中國銀監會關於支持商業銀行進一步改進小型微型企業金融服務的補充通知), which allows commercial banks to issue bonds for the purpose of financing small businesses.

CBRC Supervision of Capital Adequacy

The CBRC supervises and examines the capital adequacy levels of commercial banks through off-site surveillance and on-site examination. Commercial banks are required to report to the CBRC their unconsolidated capital adequacy ratios on a quarterly basis and their consolidated capital adequacy ratios on a semi-annual basis.

The CBRC classifies commercial banks into four categories based on their capital adequacy status and take corresponding actions as follows:

Category	Capital Adequacy Status	CBRC actions
Category 1	capital adequacy ratio, Tier–one capital adequacy ratio and core Tier–one capital adequacy ratio all meet the relevant capital requirements of different levels	● require the bank to strengthen its analysis and forecasts on the reasons of declines in its capital adequacy ratio ● require the bank to formulate a feasible plan on the management of capital adequacy ratio ● require the bank to improve its risk control abilities
Category 2	capital adequacy ratio, Tier–one capital adequacy ratio and core Tier–one capital adequacy ratio do not meet the Pillar 2 capital requirements, but are not lower than other levels of capital requirements	● take the regulatory actions for Category 1 banks ● meet with the board and senior management of the bank to discuss prudential management ● issue a supervisory notice, the contents of which include the bank's existing capital management issues, corrective measures to be taken and timelines for compliance ● require the bank to formulate a feasible capital replenishment plan and a compliance plan with target timelines ● increase the frequency of inspection on the bank's capital adequacy ● require the bank to adopt risk-mitigation measures for specific risks
Category 3	capital adequacy ratio, Tier-one capital adequacy ratio and core Tier-one capital adequacy ratio meet the minimum capital requirements but fail to meet other levels of capital requirements	● take the regulatory actions for Category 1 and Category 2 banks ● restrict distribution of bonuses and other incomes by the bank ● restrict the offering of any incentive schemes to directors and senior management of the bank ● restrict the bank from making equity investment or repurchasing capital instruments ● restrict significant capital expenditures ● require the bank to control the expansion of risk assets

Category	Capital Adequacy Status	CBRC actions
Category 4	any of the capital adequacy ratio, Tier-one capital adequacy ratio and core Tier-one capital adequacy ratio fails to meet the minimum capital requirements	● take the regulatory actions for Category 1, Category 2 and Category 3 banks ● require the bank to substantially reduce the amount of risk assets ● order the bank to suspend all businesses involving high risk assets ● restrict or forbid the establishment of new branches or the launch of new businesses ● discount Tier-two capital instruments or convert them into ordinary shares ● order the bank to change its directors and senior management or restrict their rights and authorities ● take over the bank or procure the restructuring of the bank until it is being revoked according to the laws

Basel Accords

Basel I, formulated by the Basel Committee on Banking Supervision in 1988, is a capital measurement system for banks that provides for the implementation of a credit risk measurement framework with a minimum capital adequacy ratio of 8%. In 2004, the Basel Committee on Banking Supervision published Basel II to replace Basel I. Basel II retains the key elements of Basel I, including the general requirement for banks to hold total capital equivalent to at least 8% of their risk-weighted assets. In addition, Basel II seeks to improve the capital regulatory framework through the introduction of three "pillars." Pillar 1 seeks to improve the capital framework's sensitivity to the risk of credit losses generally by aligning capital requirements more closely to the level of credit risk presented by a bank's borrowers, introducing three different options for measuring credit risk based on external or internal credit risk ratings, and establishing an explicit capital charge for a bank's exposure to the risk of loss caused by operational failures. Pillar 2 introduces standards for the supervisory review of a bank's internal assessments of its overall risks. Pillar 3 seeks to subject banks to increased market discipline by enhancing the degree of transparency in public reporting. Basel II also introduces material changes to the calculation approach of capital adequacy ratio. The CBRC has issued a series of regulations to implement Basel II since its introduction.

In December 2010, the Basel Committee formally released the latest version of capital accord, or Basel III. In light of Basel III, the CBRC announced new capital adequacy, liquidity and loan allowance requirements for commercial banks in China, some of which are more stringent than that of Basel III. For example:

- *Capital adequacy and leverage requirements*. The new guidelines reclassified the existing two minimum capital adequacy requirements into three levels of capital adequacy requirements, namely core Tier–one capital adequacy ratio, Tier–one capital adequacy ratio and capital adequacy ratio, which shall be no less than 5% (0.5% higher than the regulatory requirements of Basel III), 6%, and 8% respectively. In addition, the new guidelines introduced a countercyclical capital regulatory framework, including retained excess capital of 2.5% and countercyclical excess capital of a 0-2.5%. Moreover, an additional capital requirement (tentatively set as 1%) was imposed for the systemically important banks (i.e. banks that are considered fundamental to the well-being of the domestic banking industry as a whole), which mean that the systemically important banks are required to maintain a core Tier–one capital adequacy ratio, Tier–one capital adequacy ratio and capital adequacy ratio of no less than 8.5%, 9.5% and 11.5%, respectively. The non-systemically important banks are required to maintain such ratios of no less than 7.5%, 8.5% and 10.5%, respectively. The leverage ratio, i.e. the ratio of Tier–one capital to adjusted on-and-off-balance sheet exposure, shall be no less that 4%, which is 1% higher than the regulatory requirements of Basel III.

- *Liquidity requirements*. Commercial banks are required to maintain a liquidity coverage ratio of no less than 100% by the end of 2013 and a net stable funding ratio of no less than 100% by the end of 2016.
- *Loan loss allowances requirements*. Systematically important banks are required to maintain a loan allowance ratio (the ratio of loan loss allowances to loans) of no less than 2.5% and an allowance coverage (the ratio of loan loss allowance to non-performing loan) of no less than 150% by the end of 2013. The non-systemically important banks are required to achieve such ratios by the end of 2016 or 2018, depending on their profitability and additional allowance for loan losses.

The CBRC is conducting empirical research on the new Basel III standards, and considering measures to facilitate the parallel implementation of Basel II and Basel III. We aim to comply with the requirements set forth as above within the applicable timeframe set out by the new guidelines and rules.

LOAN CLASSIFICATION, ALLOWANCE AND WRITE-OFFS

Loan Classification

Commercial banks in the PRC are required to classify loans under a five-category loan classification system based on the estimated likelihood of full repayment of principal of and interest on loans by borrowers in a timely manner, according to the Guidelines of Risk-based Classification of Loans (貸款風險分類指引). The five categories are “normal,” “special mention,” “substandard,” “doubtful” and “loss.” Loans classified as substandard, doubtful or loss are considered non-performing loans. The primary factors for evaluating the likelihood of repayment include the borrower’s cash flow, financial condition and credit history.

Loan Allowance

According to the Guidelines of Risk-based Classification of Loans, commercial banks are required to make full provisions for loan losses on a timely basis and write off loan losses in accordance with the relevant requirements.

According to the Guidelines on Bank Loan Loss Provisions (銀行貸款損失準備計提指引), allowance for loan losses consists of general allowance, specific allowance and special allowance. General allowance refers to the allowance for all unidentified but possible losses, which are made based on certain percentages of the balance of total loans; specific allowance refers to the allowance made for specific losses in connection with an individual loan based on its risk categorization under the Guiding Principles on Risk Classification of Loans (貸款風險分類指導原則); and special allowance refers to the allowance made for the risks of a particular country, region, industry, or a particular type of loans.

Commercial banks are required to make provisions for impairment losses on a quarterly basis and have a general allowance of no less than 1% of the total loans outstanding as of December 31 of each year. The guidelines on specific allowance are as follows: 2% for special mention loans; 20%-30% for substandard loans; 40%-60% for doubtful loans; and 100% for loss loans. Commercial banks may make special allowance in accordance with special risk factors (including risks associated with certain industries and countries), probability of losses and historical experience.

Pursuant to the Administrative Measures for Provision for Loss on Commercial Banks' Loans (商業銀行貸款損失準備管理辦法) promulgated by the CBRC, the CBRC set the benchmarks for loan provision ratio and provision coverage ratio to examine the adequacy of provision for loan loss of commercial banks. The benchmarks for loan provision ratio and provision coverage ratio are 2.5% and 150% respectively, the higher of which shall be the regulatory benchmark for provision for loan loss of commercial banks. Systematically important banks are required to meet this standard by 2013 while non-systematically important banks are required to meet this by 2016. Any bank failing to meet this standard by 2016 is required to formulate a plan on how to meet the standard, report it to the CBRC and meet the standard by 2018.

CBRC Supervision of Loan Classification and Loan Allowance

Commercial banks are required to formulate detailed internal procedures to clearly define the responsibilities of each relevant department with respect to loan classification, approval, review and other matters. In addition, commercial banks must submit quarterly and annual reports to the CBRC on the classification of their loan portfolios and their allowance for loan losses. Based on the review of these reports, the CBRC may require commercial banks to explain significant changes in loan classification and loan loss allowance levels and may carry out further inspections accordingly. Since 2012, commercial banks shall provide information on loan loss provision to the CBRC on a monthly basis, including the balances of loan loss provision as at the beginning and end of the period, the amounts provided, reversed and written off for the current period and loan provision ratios and provision coverage ratios as at the beginning and end of the period.

Loan Write-offs

Under regulations issued by the CBRC, PBOC and the MOF, commercial banks are required to establish a strict examination and approval process to write off loan losses. A loan to be written off must meet the standards set by the MOF. Commercial banks may deduct the losses realized from loan write-offs for tax purposes, subject to the review and approval of the tax authorities.

Allowance and Statutory General Reserve for Impairment Losses

On March 30, 2012, the MOF issued the Administrative Measures for the Provisioning of Financial Enterprises (金融企業準備金計提管理辦法), which provide that the balance of general allowance shall, in principle, be not less than 1.5% of a financial institution's risk-bearing assets at the end of the period. Financial institutions that have adopted standard methods to calculate the statutory general reserve should temporarily use the following standard risk coefficient of credit assets: 1.5% for normal loans, 3% for special mention loans, 30% for substandard loans, 60% for doubtful loans and 100% for loss loans. Financial institutions that fail to achieve the foregoing 1.5% ratio are required to meet this requirement in no more than five years in principle.

Other Operational and Risk Management Ratios

The CBRC sets forth certain core operations and risk management indicators in the Core Indicators (Provisional). The purpose of the core regulatory ratios, as set out in the Core Indicators (Provisional), is to enhance the identification, assessment and early alert of risks facing commercial banks so as to effectively prevent financial risks. The CBRC collects the core regulatory ratios from commercial banks on a regular basis through its off-site supervisory system, to timely assess and predict the risk level of such banks. The following table sets forth the required regulatory ratios as provided in the Core Indicators (Provisional) and our ratios as of December 31, 2010, 2011 and 2012 and September 30, 2013, calculated in accordance with the PRC GAAP.

				Ratios of the Bank (%)			
				as of December 31,			as of September 30,
Risk Level	Primary indicators	Secondary Indicators	Requirement (%)	2010	2011	2012	2013
Risk Level							
Liquidity risk	Liquidity ratio(1)	RMB and Foreign currency	≥25	35.81	38.48	35.17	27.17
	Core liabilities ratio(2)		≥60	62.86	64.50	57.05	58.80
	Liquidity gap ratio(3)		≥(10)	(3.14)	9.12	(10.10)	(8.58)
Credit risk	Non-performing asset ratio(4)		≤4	0.43	0.34	0.34	0.32
		NPL ratio(5)	≤5	0.60	0.48	0.58	0.58
	Credit exposure to a single group client(6)		≤15	12.07	9.04	7.18	7.19
		Loan exposure to a single client(7)	≤10	9.10	6.40	5.05	4.32
	Overall credit exposure to related parties(8)		≤50	20.37	5.16	4.53	2.03
Market risk . . .		Cumulative foreign currency exposure ratio(9)	≤20	0.13	0.10	0.08	0.13
Risk cushion profitability . . .		Cost-to-income ratio(10)	≤45	29.39	27.09	26.60	24.91
	Return on assets(11)		≥0.6	1.46	1.50	1.48	1.42
	Return on capital(12)		≥11	19.89	22.22	22.93	22.68
Allowance adequacy . . .		Allowance adequacy ratio for asset losses(13)	>100	375.76	466.11	391.25	374.29
		Allowance adequacy ratio for loan losses(14)	>100	471.92	579.43	463.32	428.12
Capital adequacy . . .		Capital adequacy ratio(15)	≥8	12.06	14.68	13.54	12.22
		Core capital adequacy ratio(16)	≥4	11.19	10.87	10.30	9.55

Notes:
Calculated as follows:

(1) Liquidity ratio = current assets/current liabilities x 100%. Current assets include cash, gold, surplus deposit reserve, net placements and deposits with banks and other financial institutions due within one month, interest receivable and other receivables due within one month, qualified loans due within one month, in bond investments due within one month, debt securities that can be liquidated on the international and domestic secondary market at any time and other liquid assets due within one month (excluding the non-performing portion of such assets). Current liabilities include demand deposits (excluding fiscal deposits), time deposits due within one month (excluding fiscal deposits), net placements and deposits from banks and other financial institutions due within one month, issued bonds due within one month, interest payable and various payables due within one month, borrowings from the PBOC due within one month and other liabilities due within one month.

(2) Core liabilities ratio = amount of core liabilities/amount of total liabilities x 100%. Core liabilities refer to the combined amount of time deposits with remaining maturities of 90 days or more, issued debt securities with remaining maturities of 90 days or more, and the minimum amount of demand deposits in the 12 months prior to the date of the financial report. Total liabilities refer to total liabilities on the balance sheet prepared under PRC GAAP. Core liabilities ratio indicates a bank's liquidity position by measuring the amount of liabilities that not expected to be paid off in near term, which represent relatively stable funding sources of the bank.

(3) Liquidity gap ratio = liquidity gap/amount of on- and off-balance sheet assets due within 90 days x 100%. Liquidity gap refers to the amount of on- and off-balance sheet assets with maturities of 90 days or less minus the amount of on- and off-balance sheet liabilities with remaining maturities of 90 days or less. According to the reporting guidance issued by the CBRC, we deducted the amount of the lowest balance of demand deposits in the 12 months prior to the reporting date, when calculating the amount of on- and off-balance sheet liabilities with maturities of 90 days or less. Liquidity gap ratio indicates a bank's liquidity position by measuring its ability to meet short-term liabilities with short-term assets.

(4) Non-performing asset ratio = amount of non-performing assets subject to credit risk/amount of assets subject to credit risk x 100%. Non-performing credit risk assets include non-performing loans and other credit risk assets categorized as non-performing. The categorization of non-loan credit risk assets is in accordance with relevant CBRC regulations.

(5) NPL ratio = (substandard loans + doubtful loans + loss loans) / all types of loans x 100%. The five category loan classification system is implemented in accordance with the relevant regulations and requirements including the Guiding Principles of Risk Classification of Loans (貸款風險分類指導原則). Loans refer to the assets financed by the banking financial institutions to borrowers in the form of monetary fund, which primarily include loans, trade financing, bill financing, financing lease, assets purchased under agreements to resell from non-financial institutions, overdraft and all kinds of advances.

(6) Credit exposure to a single group-client = total credit granted to the largest single group-client/net capital x 100%. Largest group-client refers to the single group-client granted the highest credit limit at the end of the period.

(7) Loan exposure to a single-client = total loans to the largest single-client/net capital x 100%. Largest single-client refers to the client with the highest balance of loans at the end of the period.

(8) Overall credit exposure to related parties = total granted credit limit to all related parties/net capital x 100%. The related party is defined under the Administrative Measures for Related Party Transactions between the Commercial Banks and their Insiders and Shareholders (商業銀行與內部人和股東關聯交易管理辦法) and the relevant regulations. Total granted credit limit to all related parties refers to total credit balance granted to such parties minus cash deposit guarantees and collateral in the form of bank deposits and PRC government bonds.

(9) Cumulative foreign currency exposure ratio = amount of cumulative foreign currency exposure/net capital x 100%. Cumulative foreign currency exposure refers to exchange rate sensitive foreign currency assets subtracted by exchange rate sensitive foreign currency liabilities.

(10) Cost-to-income ratio = operating expenses/operating income x 100%, prepared under PRC GAAP.

(11) Return on assets = net profit/average balance of assets x 100%.

(12) Return on capital = net profit/average balance of shareholders' equity for the period x 100%.

(13) Allowance adequacy ratio for asset losses = actual amount of allowance for assets subject to credit risk/required amount of allowance for assets subject to credit risk x 100%.

(14) Allowance adequacy ratio for loan losses = actual amount of allowance for loans/required amount of allowance for loans x 100%. The required amount of allowance for loans is calculated based on the methodology under the PBOC guidelines as described under "– Loan Classification, Allowance and Write-offs – Loan Allowance."

(15) Capital adequacy ratio (as of December 31, 2010, 2011 and 2012) = (core capital + supplementary capital– capital deductions)/(risk-weighted assets + 12.5 x capital charge for market risk) x 100%. Capital adequacy ratio (as of June 30, 2013) = (Core Tier-one capital – corresponding capital deduction) / risk-weighted assets x 100%.

(16) Core capital adequacy ratio = (core capital – core capital deductions)/(risk-weighted assets + 12.5 x capital charge for market risk) x 100%. Core capital adequacy ratio of June 30, 2013 refers to Core tier-one capital adequacy ratio. Core Tier-one capital adequacy ratio = (Core Tier-one capital – corresponding capital deduction) / risk-weighted assets x 100%.

While remaining in compliance with the relevant regulatory ratio requirement, our liquidity ratio decreased from 35.17% as of December 31, 2012 to 27.17% as of September 30, 2013. The decrease was mainly due to the combined effect of (i) our pledge of debt securities to secure treasury time deposits and placements from banks and other financial institutions, resulting in a decrease in current assets; and (ii) increased deposits from banks and other financial institutions due within one month.

As of December 31, 2012 and September 30, 2013, our core liabilities ratio was 57.05% and 58.80%, respectively, which did not satisfy the core liabilities ratio requirement under the Core Indicators (Provisional). Such non-compliance was mainly attributable to the increase of our funds from inter-bank market, which are considered non-core liabilities, as a percentage of our total liabilities, as our funding sources continued to diversify. In addition, our liquidity gap ratio as of December 31, 2012 was (10.10)%, which did not satisfy the liquidity gap ratio requirement under the Core Indicators (Provisional). Such non-compliance was mainly due to (i) a decrease in investment securities with remaining maturities of 90 days or less and (ii) an increase in demand deposits, resulting in an increase in liabilities with remaining maturities of 90 days or less.

In order to comply with the core liabilities ratio and liquidity gap ratio requirements, we aim to (1) increase our core liabilities by further enhancing the sales and marketing capabilities of our branch network to attract more mid-term and long-term deposits; (2) expand our reserve of easily liquidated assets and (3) closely monitor our liquidity risk and maintain a reasonable amount of inter-bank assets and liabilities through strengthened asset and liability management. Our PRC legal adviser, King & Wood Mallesons, has advised us that the Core Indicators (Provisional) do not provide for any penalty for failing to comply with the ratios set forth therein. As stated in the Core Indicators (Provisional), the core regulatory ratios serve as indicators of commercial banks' risk identification, monitoring and alert only, and do not constitute a direct basis of any regulatory penalties or other sanctions. In addition, failure to meet the core liabilities ratio or liquidity gap ratio does not necessarily cause any immediate, significant liquidity risk. Therefore, our non-compliance with the core liabilities ratio and liquidity gap ratio historically has not resulted in, nor do we expect it to result in, any penalty against us or otherwise have any material adverse effect on our financial performance. However, according to the Core Indicators (Provisional), the CBRC may initiate regulatory meetings with, or issue guidance to, commercial banks based on its analysis of the regulatory ratios provided by such banks. Therefore, commercial banks that have failed to comply with regulatory ratio requirements may be subject to regulatory meetings or receive guidance from the CBRC. However, in general, the CBRC will not impose any specific restrictions on business activities of commercial banks for failure to meet certain liquidity risk ratio requirements, or request the bank to adjust its position in a particular asset or liability. Therefore, we do not believe our non-compliance with the core liabilities ratio will have a direct negative impact on our financial performance. We will disclose any future incidences of non-compliance with the regulatory ratios in the Core Indicators (Provisional) in our interim and annual reports after listing.

In addition, the Core Indicators (Provisional) has also defined several other ratios, including sensitivity of interest rate risk, operational risk loss ratio, normal loan migration ratio and non-performing loan migration ratio, without providing detailed guidance. The CBRC may formulate regulatory provisions with respect to such ratios in the future.

CORPORATE GOVERNANCE AND INTERNAL CONTROL

Corporate Governance

Corporate governance requirements for commercial banks are clearly set forth in the PRC Company Law, the PRC Commercial Banking Law and other applicable laws and regulations. In particular, the Corporate Governance Guidelines, which promulgated by the CBRC promulgated on July 19, 2013, requires the commercial banks to set up a corporate governance structure abide within line with the principles of independent operation, effective check and balance and mutual cooperation, and in view of establishing a rational reasonable motivation incentive and control restraint mechanism for rational and effective decision-making, execution and supervision and efficient decision and supervision system. In addition, the guideline provides that a clear good corporate governance of commercial banks include, but not limited to, the aspects of sound organizational structure, clearly defined responsibilities, scientific rational development strategies and values, and reputational good social responsibilities; effective risk management and internal control; a rational motivation incentive and control restraint mechanism; and a perfect sound information disclosure system.

As set forth in the CBRC's 2010 annual report, the CBRC requires (i) the board of directors of commercial banks to duly perform their duties and improve the collective decision-making mechanisms, (ii) the boards of supervisors to fulfill their supervisory responsibilities and facilitate communications with directors and senior management, and (iii) the senior management to strengthen control over the management procedures, streamline credit extension processes, and clarify due diligence and accountability standards, for customer investigation, business intake, credit assessment, etc. According to the Measures for Evaluating the Performance of Directors of Commercial Banks (Provisional) (商業銀行董事履職評價辦法（試行)), commercial banks are required to evaluate the performance of their directors each year and replace the directors that fail to pass the evaluation. In addition, in accordance with the Supervisory Guidelines on Sound Compensation in Commercial Banks (商業銀行穩健薪酬監管指引), commercial banks are required to establish a compensation system in line with its strategic goals to enhance their competitiveness, ability to retain talent and risk management capability.

Internal Control

In accordance with the Guidelines on Internal Control of Commercial Banks (商業銀行內部控制指引) issued by the CBRC in 2007, commercial banks in China are required to implement internal control measures to ensure effective risk management for their business activities. In addition, commercial banks are required to establish a risk management department to formulate and implement risk management policies and procedures. Commercial banks are also required to establish an internal audit department to independently supervise and evaluate all aspects of their operations.

In accordance with the Internal Audit Guidelines on for Financial Institutions (銀行業金融機構內部審計指引) issued by the CBRC, banks are required to establish an audit committee of the board with at least three members, a majority of whom must be non-executive directors. Banks are also required to establish an internal audit department with employees who meet certain qualifications. In principle, the number of employees at the internal audit department shall be no less than 1% of the total employees of the bank and are subject to an internal rotation mechanism. The guidelines also set forth the scope of internal audit, and require commercial banks to evaluate the risk of each business department at least once a year and conduct internal audit of each business department at least once every two years. We determine the number of our internal audit employees based on our internal control and risk management demand. We believe we currently have sufficient internal audit employees to meet our needs, although their number is less than 1% of our total employees as of the Latest Practicable Date. Our PRC legal adviser, King & Wood Mallesons, has advised us that the CBRC has not set forth a timetable for compliance with the above-mentioned guidelines or specific penalties for failing to meet the 1% requirement for the number of internal audit employees. However, we are committed to improving our internal audit function by increasing the internal audit employee headcount and establishing an internal job rotation mechanism. In addition, our compliance department is responsible for regulatory compliance and internal control assessment.

The CSRC and other government authorities issued The Basic Rules on Enterprise Internal Control (企業內部控制基本規範), which require enterprises to establish and implement internal control systems, utilize information technology to strengthen internal control, and establish information systems in line with their operational and management needs.

Information Disclosure

In accordance with the Corporate Governance Guidelines, the board of directors of a commercial bank is in charge of the information disclosure of the commercial banks. The Documents required for information to be disclosured include periodical reports, temporary interim reports and other relevant materials. Commercial banks are required to disclose their required information through their annual reports and or on their websites to make convenient excess for to enable their shareholders to easily obtain the disclosed access the information. All the listed Commercial banks that are listed in China also need to should simultaneously satisfy the information disclosure requirements of the securities supervisory authorities' requirements with respect with the information disclosure. In addition, pursuant to the Measures of Information Disclosure of Commercial Banks (商業銀行信息披露辦法商業銀行資訊披露辦法), commercial banks in the PRC are required to disclose their audited annual reports within four months after the end of each fiscal year. The annual reports should include the banks' financial position and results of operations.

Related Party Transactions

The Administrative Measures for Related Party Transactions between Commercial Banks and their Insiders or Shareholders (商業銀行與內部人和股東關聯交易管理辦法) set out detailed provisions on the definition of a related party, the form and content of a related party transaction and the procedures and principles which must be followed for related party transactions. Under the above regulation, commercial banks are prohibited from granting unsecured loans to related parties, and the related party transaction of commercial banks are required to be based on the commercial principles and terms no more favorable than those offered to non-related party on similar transactions.

In addition, commercial banks are required to, on a quarterly basis, submit reports on related party transactions to the CBRC and disclose related parties and related party transactions in their financial statements. Moreover, the board of directors is required to report annually at the shareholders' meetings on the implementation of related party transaction system and the status of related party transactions. The CBRC has the power to request rectification of the transactions that violate applicable regulations and impose sanctions on the banks or the related parties.

We have established a related party transaction control committee and have formulated relevant procedures to approve related party transactions in accordance with such procedures and applicable laws and regulations.

OWNERSHIP AND SHAREHOLDER RESTRICTIONS

Regulations on Equity Investment in Banks

Prior approval from the CBRC is required for any individual or legal person to hold 5% or more of the total outstanding shares of a commercial bank, unless otherwise required by the approval authority. If any shareholder of a commercial bank increases its shareholding to 5% or more without obtaining the prior approval of the PRC banking supervision and administration departments, that shareholder may be subject to penalties of the PRC banking supervision and administration departments, which include, among others, rectification of such illegal behaviors, confiscation of illegal income or fines, where applicable.

Under the Measures for the Administration of the Investment and Shareholding in Chinese-funded Financial Institutions by Foreign Financial Institutions (境外金融機構投資入股中資金融機構管理辦法), foreign equity investment in a Chinese commercial bank is currently subject to the CBRC's approval. Equity investment by a single foreign financial institution in a Chinese commercial bank cannot exceed 20% of the bank's total equity. A non-listed Chinese commercial bank will be regulated as a foreign-invested bank if the proportion of investment made by foreign financial institutions, in aggregate, accounts for 25% or above. Nonetheless, a listed Chinese commercial bank will remain to be regulated as a Chinese commercial bank even if the proportion of investment made by foreign financial institutions accounts for 25% or more of such bank's total equity.

Restrictions on Shareholders

The Corporate Governance Guidelines impose certain additional requirements on the shareholders of Chinese commercial banks. For example:

- Shareholders, especially major shareholders, of commercial banks need to support reasonable capital plans formulated by the banks' board of directors, so that the banks can continuously meet relevant regulatory requirements;
- when a commercial bank's capital fails to meet regulatory requirements, the bank need to formulate a capital injection plan for its capital adequacy ratio to meet regulatory requirements within required period, and increase capital through means such as supplementing core capital; major shareholders of the bank cannot prevent other shareholders from injecting additional capital or object to the introduction of new qualified shareholders; and
- shareholders, especially major shareholders, of a commercial bank who have any overdue loan from the bank are restricted from voting at the shareholders' meeting of the bank; directors appointed by such shareholders' are restricted from voting at the bank's board meetings.

In addition, the PRC Company Law and relevant CBRC rules and regulations impose restrictions on the ability of shareholders of a commercial bank to pledge their shares. For example, a Chinese commercial bank may not accept its own shares as the underlying collateral in pledge. In addition, shareholders of a Chinese commercial bank are restricted from pledging their shares in the bank to any other party. According to the Corporate Governance Guidelines, if a shareholder of a Chinese commercial bank pledges its shares in the bank as collateral for itself or a third party, it must give prior notice to the board of directors of the bank. Moreover, the shareholder may not create additional pledge if the balance of the bank's loans to such shareholder exceeds the audited net value of such shareholder's equity in the bank for the immediately preceding year, and such shareholder has not pledged any deposit receipts or government bonds as collateral for its loans.

RISK MANAGEMENT

Market Risk Management

In order to strengthen the market risk management of commercial banks in China, the CBRC promulgated the Guidelines on the Market Risk Management of Commercial Banks

(商業銀行市場風險管理指引), which set out, among other things, (i) the responsibilities of the board of directors and the senior management in supervising market risk management, (ii) the policies and procedures for market risk management, (iii) the detection, quantification, monitoring and control of market risk, and (iv) the responsibilities for internal control and external audits. Under these guidelines, commercial banks are required to establish formal written policies and procedures to manage market risks, which should cover, among others, (i) permitted business activities, financial instruments that are tradable or available for investment, or investment, hedging and risk mitigation strategies and methods; (ii) the level of market risk acceptable to by the commercial bank; (iii) the organizational structure, authorization limits and accountability mechanism for market risk management; (iv) a set of procedures for the detection, quantification, monitoring and control of market risk; and (v) an information system for market risk management.

In addition, the New Capital Adequacy Regulations (Provisional) set forth the basic standard for commercial banks to comply with when using internal models to measure the market risk capital, the examination and approval procedures and other requirements.

Operational Risk Management

The Circular on Strengthening Control of Operational Risk (關於加大防範操作風險工作力度的通知) requires commercial banks to strengthen their ability to identify operational risks and the risk management and control thereof. Under this circular, commercial banks are required to focus on the establishment of rules and policies specifically for the management and prevention of operational risks. In particular, the internal audit departments and the responsible business departments are required to conduct independent and ad hoc examinations of business departments from time to time. For the business areas involving higher operational risks, ongoing reviews and examinations are required to be conducted. Moreover, a commercial bank's head office is required to supervise and assess the implementation of the on-going examination mechanism.

In addition, this circular sets forth detailed requirements relating to, among others, establishing and implementing a system under which branch officers in charge of business operations are required to rotate and take compulsory leave on a regular basis; improving reconciliation in a timely manner of the account statements between commercial banks and their customers, among banks and between accounts of internal operational departments and those of accounting departments, segregating persons in charge of account keeping and persons in charge of account reconciliation, and establishing a system for the management of seals, specimen signatures and certifications.

Furthermore, the Guidelines on Operational Risk Management of Commercial Banks (商業銀行操作風險管理指引) provide for the supervision and control of the board of directors, responsibilities of senior management, proper organizational structure, and policies, approaches and procedures for operational risk management. Commercial banks are required to file these policies and procedures with the CBRC. If a commercial bank experiences a significant operational incident and fails to adopt effective corrective measures within the required period, the CBRC may take appropriate regulatory actions. In addition, the New Capital Adequacy Regulations (Provisional) set forth additional requirements for calculating operational risk-weighted assets.

Liquidity Risk Management

The Guidelines on the Management of Liquidity Risk of Commercial Banks (商業銀行流動性風險管理指引) require commercial banks to establish a sound liquidity risk management system and set forth, among other things, (i) the functions, responsibilities and reporting line of the board of directors and its specialized committees, the board of supervisors, senior management and their specialized committees and relevant business departments of commercial banks in respect of liquidity risk management; (ii) liquidity risk management policies and procedures; (iii) internal control and information management system; and (iv) liquidity risk management methods and techniques.

In addition, the Notice on Further Strengthening the Supervision of Liquidity Risk of Commercial Banks (關於進一步加強商業銀行流動性風險監管的通知) introduces new liquidity risk measurement indicators, such as liquidity coverage ratio and net stable funding ratio, and requires commercial banks to optimize credit-liability structure, avoid maturity mismatches and reduce the possibility and impact of a liquidity crisis. Moreover, the Notice on Printing and Distributing Off-site Supervision Report of Year 2011 (關於印發2011年非現場監管報表的通知) improved the reporting system for off-site supervision of liquidity risk in accordance with the latest requirements.

Compliance Risk Management

The CBRC promulgated the Guidelines on Compliance Risk Management of Commercial Banks (商業銀行合規風險管理指引) to clarify the responsibilities of the board of directors, the board of supervisors and the senior management of Chinese commercial banks with respect to compliance risk management, standardize the organizational structure for compliance risk management and set out the regulatory framework for commercial banks' risk management.

Risk Management in Other Aspects

In addition to the above rules and regulations, the CBRC promulgated several guidelines on the management of other risks, such as the Guidelines on Reputation Risk Management of Commercial Banks (商業銀行聲譽風險管理指引), the Guidelines on the Management of Interest Rate Risk in the Banking Account of Commercial Banks (商業銀行銀行帳戶利率風險管理指引), the Guidelines on the Management of Outsourcing Risks of Banking Financial Institutions (銀行業金融機構外包風險管理指引), the Guidelines on the Management of Information Technology Risk of Commercial Banks (商業銀行信息科技風險管理指引), the Guidelines on the Management of Country Risk by Banking Financial Institutions (銀行業金融機構國別風險管理指引), to strengthen the risk management of commercial banks in the relevant areas.

Risk Rating System

Joint stock commercial banks in the PRC are subject to evaluation by the CBRC based on a provisional risk rating system. Under this system, the CBRC evaluates capital adequacy, asset quality, management quality, profitability, liquidity and exposure to market risks of a joint stock commercial bank on a continuous basis, and determines a rating score for each joint stock commercial bank. Each joint stock commercial bank is classified into one of the five risk rating categories according to the rating score determined by the CBRC. The CBRC determines the frequency and scope of its on-site inspections of each individual joint stock commercial bank based on the risk rating category of such bank. The CBRC considers risk rating of a commercial bank when evaluating the bank's application for new business permits and the qualifications of its senior management. These risk ratings are not publicly available.

Anti-money Laundering Regulation

The PRC Anti-money Laundering Law (中華人民共和國反洗錢法) sets out the responsibilities of the relevant financial regulatory authorities regarding anti-money laundering, including the formulation of anti-money laundering rules and regulations for financial institutions. Under the Anti-money Laundering Regulations for Financial Institutions (金融機構反洗錢規定), commercial banks in the PRC are required to establish a special anti-money laundering department or designate an internal department responsible for anti-money laundering procedures. In accordance with the Administrative Measures for the Financial Institutions' Report of Large Transactions and Suspicious Transactions (金融機構大額交易和可疑交易報告管理辦法), upon the detection of any suspicious transactions or transactions involving large amounts, commercial banks are required to report the transactions to the PBOC or the SAFE, as applicable. Where necessary and pursuant to appropriate judicial proceedings, commercial banks are required to cooperate with government authorities in preventing money laundering activities and in freezing assets. In addition, according to the Administrative Measures for Customer Identity Identification and Data and Transaction Record Maintenance of Financial Institutions (金融機構客戶身份識別和客戶身份數據及交易記錄保存管理辦法), commercial banks are required to establish a system to record the identities of all customers and their respective deposits, settlement and other transactions with the banks. Under the PRC Anti-money Laundering Law, the PBOC supervises commercial banks' compliance with anti-money laundering laws and regulations through onsite inspections and imposes penalties on commercial banks that violate the relevant rules and regulations.

OTHER REQUIREMENTS

Use of Funds

Under the PRC Commercial Banking Law, commercial banks are not permitted to engage in trust investment or securities business, invest in real property other than for their own use, or invest in non-banking financial institutions and enterprises, unless otherwise approved by the relevant government authorities. The use of funds by commercial banks is limited to the following:

- short-term, medium-term and long-term loans;
- acceptances and discounts on bills;
- inter-bank loans;
- trading of government bonds;
- trading of financial bonds;
- investment in banking institutions; and
- other uses as approved by the relevant authorities.

Upon the approvals of the relevant authorities, including the CBRC, commercial banks are permitted to invest in domestic insurance companies, fund management companies and financial leasing companies in accordance with relevant regulations.

Periodic reporting requirements

According to the Notice on the Official Operation of Off-site Regulatory Information System in 2007 (關於非現場監管信息系統2007年正式運行的通知) issued by the CBRC, city commercial banks are required to submit to the CBRC, among others, certain balance sheet items and liquidity ratio tables on a monthly basis, income statement and information on financial derivative business on a quarterly basis, interest rate re-pricing on a semi-annually basis and profit distribution and credit quality migration tables on an annually basis.