The following discussion and analysis should be read in conjunction with the Accountant's Report in Appendix I, which has been prepared in accordance with IFRS, the Unaudited Supplementary Financial Information in Appendix II and the Unaudited Pro Forma Financial Information in Appendix III, in each case together with the accompanying notes. Capital adequacy ratios discussed in this section are calculated in accordance with applicable CBRC guidelines and are based on PRC GAAP financial information. The capital adequacy ratios discussed in this section are not part of the Accountant's Report and have not been audited.

The following discussion and analysis contain forward-looking statements about events that involve risks and uncertainties. Our actual results may differ from those anticipated in these forward-looking statements as a result of a number of factors, including those set forth in "Forward-looking Statements" and "Risk Factors."

OVERVIEW

We are the largest city commercial bank in Central China as measured by total assets, loans and deposits. We were established in 2005 through a merger of all the city commercial banks and urban credit cooperatives in Anhui. As of December 31, 2012, we had total assets of RMB324.2 billion, total loans of RMB163.8 billion and total deposits of RMB239.5 billion, each ranking No. 1 among city commercial banks in Central China; we were also the No. 4 city commercial bank in China by total loans and total deposits and the No. 7 city commercial bank in China by total assets.

Our primary business is commercial banking, which consists of corporate banking, retail banking and treasury operations. Our corporate banking business offers a wide range of products and services, such as corporate loans, corporate deposits, bill discounting and fee- and commission-based services. Our retail banking business offers a diverse portfolio of products and services, such as retail loans, retail deposits, bank cards and wealth management services. Our treasury operations primarily include inter-bank money market transactions, investment and trading activities and transactions on behalf of customers.

We believe our business, financial condition and results of operations have been, and will continue to be, affected by a number of factors including the following:

- ***Operating environment in Anhui.*** We derive most of our income from our operations in Anhui. Accordingly, economic conditions in Anhui directly impact our results of operations and financial condition. Anhui's economy has grown significantly in recent years. Anhui's nominal GDP increased from RMB736 billion in 2007 to RMB1,721 billion in 2012, representing a CAGR of 18.5%, compared to a CAGR of 14.3% for the national nominal GDP during the same period. Anhui's economic growth has led to increasing corporate activities and significant increases in personal wealth, as evidenced by an increase in Anhui's per capita annual disposable income of urban citizens from RMB11,474 in 2007 to RMB21,024 in 2012, representing a CAGR of 12.9%. Increased levels of corporate activity and personal wealth have resulted in growth in Anhui's banking industry. We expect that our business and results of operations will benefit as Anhui's economy continues to grow.
- ***Competition.*** We face competition from other commercial banks and policy banks operating in our markets. We compete principally with the Five Largest State-owned Commercial Banks and the branches of Nation-wide Joint Stock Commercial Banks in

Anhui. We are also facing increased competition from other commercial banks and foreign banks. In addition, we compete for customer deposits with postal savings bank of China, credit cooperatives as well as non-banking financial institutions, such as securities firms, fund management companies and insurance companies. We expect competition in China's banking industry to continue to intensify in the future.

- ***Regulatory environment.*** China's banking industry is highly regulated. Our results of operations, financial condition and prospects are affected by regulatory developments in China, as well as the economic measures undertaken by the PRC government. As China's regulatory regime and banking industry develop, changes in laws and regulations, or in their interpretation or enforcement, could materially affect our business, financial condition or results of operations. For example, the CBRC may further amend the capital adequacy guidelines, which could significantly affect the amount we are able to lend and the cost of funding.

- ***Interest rate environment.*** Our results of operations depend to a large extent on our net interest income, which represented 92.8% and 92.3% of our total operating income in 2012 and the six months ended June 30, 2013, respectively. The PBOC regulates interest rates on loans and deposits denominated in Renminbi. In recent years, the PBOC has gradually liberalized the regulation of interest rates. For example, in July 2013, the PBOC removed the lower limit on the interest rates of RMB-denominated loans (other than residential mortgage loans) and allowed financial institutions to determine their own lending rates, which may cause greater downward pricing pressure on our corporate and personal loan products. We expect future changes in the interest rate environment, in particular, changes in PBOC benchmark interest rates or regulations of interest rate on deposits in China, to continue to significantly affect our financial condition and results of operations.

RESULTS OF OPERATIONS

The table below sets forth our results of operations for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
				(unaudited)	
	(in millions of RMB)				
Interest income	8,256	11,253	15,161	6,886	9,080
Interest expense	(2,239)	(4,164)	(6,592)	(2,751)	(4,356)
Net interest income	**6,017**	**7,089**	**8,569**	**4,135**	**4,724**
Fee and commission income	294	461	452	191	329
Fee and commission expense	(43)	(48)	(56)	(18)	(36)
Net fee and commission income	**251**	**413**	**396**	**173**	**293**
Net trading income/(loss)	(32)	52	40	94	29
Net gains/(losses) on investment securities	(32)	30	67	51	4
Dividend income	0	2	0	0	—
Other operating income	66	65	163	71	68
Operating income	**6,270**	**7,651**	**9,235**	**4,524**	**5,118**
Operating expenses	(2,203)	(2,500)	(3,132)	(1,404)	(1,511)
Impairment losses on assets	(578)	(579)	(458)	(265)	(424)
Operating profit	**3,489**	**4,572**	**5,645**	**2,855**	**3,183**
Share of profits of associates	13	32	35	12	24
Profit before income tax	**3,502**	**4,604**	**5,680**	**2,867**	**3,207**
Income tax expense	(800)	(1,111)	(1,374)	(714)	(755)
Profit for the year/period	**2,702**	**3,493**	**4,306**	**2,153**	**2,452**

Six Months ended June 30, 2013 Compared to the Same Period in 2012

Net Interest Income

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

	Six months ended June 30,	
	2012	2013
	(unaudited)	
	(in millions of RMB)	
Interest income	6,886	9,080
Interest expense	(2,751)	(4,356)
Net interest income	**4,135**	**4,724**

Net interest income increased by 14.2% to RMB4,724 million for the six months ended June 30, 2013 from RMB4,135 million for the same period in 2012.

The table below sets forth the average balances of assets and liabilities, the related interest income or expense and the related average yields or cost for the periods indicated.

	Six months ended June 30,					
	2012			2013		
	Average balance(1)	Interest income	Average yield(2)	Average balance(1)	Interest income	Average yield(2)
	(unaudited)					
	(in millions of RMB, except percentages)					
Assets						
Loans and advances to customers	142,149	5,131	7.26%	173,488	5,920	6.88%
Investment securities and financial assets held for trading(3)	54,269	1,078	4.00	60,074	1,173	3.94
Balances with central bank(4)	40,902	313	1.54	48,840	374	1.54
Due from and placements with and loans to banks and other financial institutions(5)	18,758	364	3.91	77,335	1,613	4.21
Total interest-earning assets	**256,078**	**6,886**	**5.41%**	**359,737**	**9,080**	**5.09%**
Allowance for impairment losses	(3,612)			(4,044)		
Non-interest-earning assets(6)	11,736			11,736		
Total assets	**264,202**			**367,429**		

	Six months ended June 30,					
	2012			2013		
	Average balance(1)	Interest expense	Average cost(2)	Average balance(1)	Interest expense	Average cost(2)
	(unaudited)					
	(in millions of RMB, except percentages)					
Liabilities						
Deposits from customers	189,223	1,854	1.97%	232,392	2,237	1.94%
Deposits and placements from banks and other financial institutions(7)	41,830	767	3.69	95,321	1,928	4.08
Debt securities in issue(8)	3,992	130	6.55	6,757	191	5.69
Total interest-bearing liabilities	**235,045**	**2,751**	**2.35%**	**334,470**	**4,356**	**2.63%**
Non-interest-bearing liabilities(9)	9,556			11,262		
Total liabilities	**244,601**			**345,732**		
Net interest income	**4,135**			**4,724**		
Net interest spread(10)(12)	**3.05%**			**2.46%**		
Net interest margin(11)(12)	**3.25%**			**2.65%**		

Notes:

(1) Average balances of interest-earning assets and interest-bearing liabilities are derived from our management accounts. These amounts have not been audited.

(2) Calculated on an annualized basis by dividing interest income/expense by average balance.

(3) Includes available-for-sale debt securities, held-to-maturity debt securities, debt securities held for trading and debt securities classified as loans and receivables.

(4) Primarily consists of statutory deposit reserves and surplus deposit reserves.

(5) Consists of due from and placements with and loans to banks and other financial institutions and financial assets held under resale agreements.

(6) Primarily consists of cash, interest receivables, property, plant and equipment, deferred income tax assets, investments in associates and derivative financial assets.

(7) Consists of deposits and placements from banks and other financial institutions and financial assets sold under repurchase agreements.

(8) Consist of subordinated bonds and financial bonds.

(9) Primarily consists of interest payable, accrued staff salaries and benefits, tax payable and derivative financial liabilities.

(10) Represents the difference between the average yield on total interest-earning assets and the average cost of total interest-bearing liabilities.

(11) Calculated by dividing net interest income by the average balance of total interest-earning assets.
(12) Net interest spread and net interest margin are annualized figures.

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

	Six months ended June 30,		
	2012 vs. 2013		
	Increase/ (decrease) due to		Net increase/ (decrease)(3)
	Volume(1)	Rate(2)	
	(in millions of RMB)		
Assets			
Loans and advances to customers, gross	1,131	(343)	789
Investment securities and financial assets held for trading	115	(20)	95
Balances with central bank	61	0	61
Due from and placements with and loans to banks and other financial institutions	1,137	111	1,249
Change in interest income	**2,445**	**(251)**	**2,194**
Liabilities			
Deposits from customers	423	(40)	383
Deposits and placements from banks and other financial institutions	981	180	1,161
Debt securities in issue	90	(30)	61
Change in interest expense	**1,494**	**110**	**1,605**
Change in net interest income	**951**	**(361)**	**589**

Notes:
(1) Represents the average balance for the period minus the average balance for the previous period, multiplied by the average yield/cost for the previous period.
(2) Represents the average yield/cost for the period minus the average yield/cost for the previous period, multiplied by the average balance for the previous period.
(3) Represents interest income/expense for the period minus interest income/expense for the previous period.

Interest Income

Interest income increased by 31.9% from RMB6,886 million for the six months ended June 30, 2012 to RMB9,080 million for the six months ended June 30, 2013, primarily due to an increase in the average balance of interest-earning assets from RMB256,078 million for the six months ended June 30, 2012 to RMB359,737 million for the six months ended June 30, 2013, which was partially offset by a decrease in the average yield on interest-earning assets from 5.41% for the six months ended June 30, 2012 to 5.09% for the six months ended June 30, 2013.

Interest Income from Loans and Advances to Customers

Interest income from loans and advances to customers is the largest component of interest income, representing 74.5% and 65.2% of total interest income for the six months ended June 30, 2012 and 2013, respectively.

The table below sets forth the average balance, interest income and average yield in respect of loans and advances to customers by category for the periods indicated.

	Six months ended June 30,					
	2012			2013		
	Average balance	Interest income (unaudited)	Average yield[(1)]	Average balance	Interest income	Average yield[(1)]
	(in millions of RMB, except percentages)					
Corporate loans	100,965	3,795	7.56%	124,397	4,457	7.23%
Retail loans	31,609	1,020	6.49	39,290	1,185	6.08
Discounted bills	9,575	316	6.64	9,801	277	5.71
Total loans and advances to customers	**142,149**	**5,131**	**7.26%**	**173,488**	**5,920**	**6.88%**

Note;
(1) Calculated on an annualized basis.

Interest income from loans and advances to customers increased by 15.4% from RMB5,131 million for the six months ended June 30, 2012 to RMB5,920 million for the six months ended June 30, 2013, primarily due to an increase in the average balance of loans and advances to customers from RMB142,149 million for the six months ended June 30, 2012 to RMB173,488 million for the six months ended June 30, 2013, which was partially offset by a decrease in the average yield on loans and advances to customers from 7.26% for the six months ended June 30, 2012 to 6.88% for the six months ended June 30, 2013.

Interest income from corporate loans increased by 17.4% from RMB3,795 million for the six months ended June 30, 2012 to RMB4,457 million for the six months ended June 30, 2013, primarily due to an increase in the average balance of corporate loans from RMB100,965 million for the six months ended June 30, 2012 to RMB124,397 million for the six months ended June 30, 2013, which was partially offset by a decrease in the average yield on corporate loans from 7.56% for the six months ended June 30, 2012 to 7.23% for the six months ended June 30, 2013. The increase in the average balance of corporate loans was primarily the result of (i) increased market demand for corporate loans driven by Anhui's strong economic growth and (ii) our efforts to expand our trade finance business to capitalize on the growth of the commercial trading and logistics industries. The decrease in the average yield on corporate loans primarily resulted from the decreases in the PBOC benchmark interest rates in the second half of 2012.

Interest income from retail loans increased by 16.2% from RMB1,020 million for the six months ended June 30, 2012 to RMB1,185 million for the six months ended June 30, 2013, primarily due to an increase in the average balance of retail loans from RMB31,609 million for the six months ended June 30, 2012 to RMB39,290 million for the six months ended June 30, 2013, which was partially offset by a decrease in the average yield on retail loans from 6.49% for the six months ended June 30, 2012 to 6.08% for the six months ended June 30, 2013. The increase in the average balance of retail loans was primarily attributable to our efforts to expand our retail loan business. The decrease in the average yield on retail loans was primarily due to the decreases in the PBOC benchmark interest rates in the second half of 2012.

Interest income from discounted bills decreased by 12.3% from RMB316 million for the six months ended June 30, 2012 to RMB277 million for the six months ended June 30, 2013, primarily due to a decrease in the average yield on discounted bills from 6.64% for the six months ended June 30, 2012 to 5.71% for the six months ended June 30, 2013, which was partially offset by an increase in the average balance of discounted bills from RMB9,575 million for the six months ended June 30, 2012 to RMB 9,801 million for the six months ended June 30, 2013. The increase in the average balance of discounted bills was primarily attributable to our efforts to manage our loan scale and liquidity. The decrease in the average yield on discounted bills primarily reflected a declining interest rate environment as a result of the decreases in the PBOC benchmark interest rates in the second half of 2012.

Interest Income from Investment Securities and Financial Assets Held for Trading

Interest income from investment securities and financial assets held for trading increased by 8.8% from RMB1,078 million for the six months ended June 30, 2012 to RMB1,173 million for the six months ended June 30, 2013, primarily due to an increase in the average balance of investment securities and financial assets held for trading from RMB54,269 million for the six months ended June 30, 2012 to RMB60,074 million for the six months ended June 30, 2013, which was partially offset by a slight decrease in the average yield on investment securities and financial assets held for trading from 4.00% for the six months ended June 30, 2012 to 3.94% for the six months ended June 30, 2013. The increase in the average balance was primarily due to an increase in the amount of funds available for investment.

Interest Income from Balances with Central Bank

Interest income from balances with central bank increased by 19.5% from RMB313 million for the six months ended June 30, 2012 to RMB374 million for the six months ended June 30, 2013, primarily due to an increase in the average balances with central bank from RMB40,902 million for the six months ended June 30, 2012 to RMB48,840 million for the six months ended June 30, 2013. The increase in the average balance with central bank was primarily due to an increase in statutory deposit reserves, resulting from an increased deposits from customers, partially offset by a decrease in the statutory deposit reserve ratio in 2012.

Interest Income from Due from and Placements with and Loans to Banks and Other Financial Institutions

Interest income from due from and placements with and loans to banks and other financial institutions increased by 343.1% from RMB364 million for the six months ended June 30, 2012 to RMB1,613 million for the six months ended June 30, 2013, primarily due to an increase in the average balance from RMB18,758 million for the six months ended June 30, 2012 to RMB77,335 million for the six months ended June 30, 2013, as well as an increase in the average yield from 3.91% for the six months ended June 30, 2012 to 4.21% for the six months ended June 30, 2013. The increase in the average balance was primarily due to a significant increase in our purchases of bills under resale agreements, which were primarily funded by proceeds from the sales of bills under repurchase agreements and deposits from banks and other financial institutions. The increase in the average yield was primarily due to an increase in interbank lending rates.

Interest Expense

Interest expense increased by 58.3% from RMB2,751 million for the six months ended June 30, 2012 to RMB4,356 million for the six months ended June 30, 2013, primarily due to an increase in the average balance of interest-bearing liabilities from RMB235,045 million for the six months ended

June 30, 2012 to RMB334,470 million for the six months ended June 30, 2013, as well as an increase in the average cost of interest-bearing liabilities from 2.35% for the six months ended June 30, 2012 to 2.63% for the six months ended June 30, 2013.

Interest Expense on Deposits from Customers

Interest expense on deposits from customers represented 67.4% and 51.4% of interest expense for the six months ended June 30, 2012 and 2013, respectively.

The table below sets forth the average balance, interest expense and average cost for the components of deposit from customers for the periods indicated.

	Six months ended June 30,					
	2012			2013		
	Average balance	Interest expense	Average cost(2)	Average balance	Interest expense	Average cost(2)
		(unaudited)				
	(in millions of RMB, except percentages)					
Corporate deposits						
Time	41,657	825	3.96%	54,366	1,277	4.70%
Demand	82,784	322	0.78	96,285	331	0.69
Subtotal	124,441	1,147	1.84%	150,651	1,608	2.13%
Retail deposits						
Time	20,940	340	3.25%	28,177	450	3.19%
Demand	18,986	45	0.47	23,980	46	0.38
Subtotal	39,926	385	1.93%	52,157	496	1.90%
Others(1)	24,856	322	2.59%	29,584	133	0.90%
Total deposits from customers	**189,223**	**1,854**	**1.97%**	**232,392**	**2,237**	**1.94%**

Notes:

(1) Primarily consists of pledged deposits held as collateral.

(2) Calculated on an annualized basis.

Interest expense on deposits from customers increased by 20.7% from RMB1,854 million for the six months ended June 30, 2012 to RMB2,237 million for the six months ended June 30, 2013, primarily due to an increase in the average balance of deposits from customers from RMB189,223 million for the six months ended June 30, 2012 to RMB232,392 million for the six months ended June 30, 2013, which was partially offset by a decrease in the average cost of deposits from customers from 1.97% for the six months ended June 30, 2012 to 1.94% for the six months ended June 30, 2013.

Interest expense on corporate deposits increased by 40.2% from RMB1,147 million for the six months ended June 30, 2012 to RMB1,608 million for the six months ended June 30, 2013, primarily due to an increase in the average balance of corporate deposits from RMB124,441 million for the six months ended June 30, 2012 to RMB150,651 million for the six months ended June 30, 2013, as well as an increase in the average cost of corporate deposits from 1.84% for the six months ended June 30, 2012 to 2.13% for the six months ended June 30, 2013. The increase in the average balance of corporate deposits was primarily attributable to our marketing efforts to maintain the growth in our corporate deposits. The increase in the average cost of corporate deposits was primarily due to an increase in time deposits as a percentage of total corporate deposits.

Interest expense on retail deposits increased by 28.8% from RMB385 million for the six months ended June 30, 2012 to RMB496 million for the six months ended June 30, 2013, primarily due to an increase in the average balance of retail deposits from RMB39,926 million for the six months ended June 30, 2012 to RMB52,157 million for the six months ended June 30, 2013, which was partially offset by a slight decrease in the average cost of retail deposits from 1.93% for the six months ended June 30, 2012 to 1.90% for the six months ended June 30, 2013. The increase in the average balance of retail deposits was primarily attributable to our efforts to expand our personal banking business.

Interest Expense on Deposits and Placements from Banks and Other Financial Institutions

Interest expense on deposits and placements from banks and other financial institutions increased by 151.4% from RMB767 million for the six months ended June 30, 2012 to RMB1,928 million for the six months ended June 30, 2013, primarily due to an increase in the average balance from RMB41,830 million for the six months ended June 30, 2012 to RMB95,321 million for the six months ended June 30, 2013, as well as an increase in the average cost from 3.69% for the six months ended June 30, 2012 to 4.08% for the six months ended June 30, 2013. The increase in the average balance was primarily due to our increased use of repurchase agreements to fund our purchases of bills under resale agreements to earn a spread income. The increase in the average cost was primarily due to higher interbank lending rates.

Interest Expense on Debt Securities in Issue

Interest expense on debt securities in issue increased by 46.9% from RMB130 million for the six months ended June 30, 2012 to RMB191 million for the six months ended June 30, 2013, primarily due to an increase in the average balance of debt securities in issue from RMB3,992 million for the six months ended June 30, 2012 to RMB6,757 million for the six months ended June 30, 2013, which was partially offset by a decrease in the average cost of debt securities in issue from 6.55% for the six months ended June 30, 2012 to 5.69% for the six months ended June 30, 2013. The increase in the average balance of debt securities in issue was primarily due to our issuance of approximately RMB5.0 billion financial bonds in March 2013. The average cost of debt securities in issue decreased as the financial bonds bear lower interest rate than that of subordinated bonds in issue.

Net Interest Spread and Net Interest Margin

Net interest spread decreased from 3.05% for the six months ended June 30, 2012 to 2.46% for the six months ended June 30, 2013. Net interest margin decreased from 3.25% for the six months ended June 30, 2012 to 2.65% for the six months ended June 30, 2013. The decrease in both net interest spread and net interest margin was primarily due to the repricing of our loan products, reflecting the decrease in the PBOC benchmark interest rates in the second half of 2012.

Net Fee and Commission Income

Net fee and commission income represented 3.8% and 5.7% of operating income for the six months ended June 30, 2012 and 2013, respectively. The table below sets forth the principal components of net fee and commission income for the periods indicated.

	Six months ended June 30,	
	2012	2013
	(unaudited)	
	(in millions of RMB)	
Fee and commission income		
Settlement and clearing fees	38	41
Custodian and other fiduciary service fees	28	55
Consultancy and advisory fees	31	75
Bank card fees	24	48
Guarantee and commitment fees	11	34
Agency commissions	20	15
Others(1)	39	61
Subtotal	191	329
Fee and commission expenses	**(18)**	**(36)**
Net fee and commission income	**173**	**293**

Note:

(1) Primarily consists of syndicated loan fees, domestic factoring fees, international trade financing arrangement fees and debt underwriting fees.

Net fee and commission income increased by 69.4% from RMB173 million for the six months ended June 30, 2012 to RMB293 million for the six months ended June 30, 2013, primarily due to increases in consultancy and advisory fees, custodian and other fiduciary service fees, bank card fees and guarantee and commitment service fees.

Settlement and Clearing Fees

Settlement and clearing fees increased by 7.9% from RMB38 million for the six months ended June 30, 2012 to RMB41 million for the six months ended June 30, 2013. The increase in settlement and clearing fees was primarily attributable to the growth in transactional volumes resulting from our increased marketing efforts.

Custodian and Other Fiduciary Service Fees

Custodian and other fiduciary service fees increased by 96.4% from RMB28 million for the six months ended June 30, 2012 to RMB55 million for the six months ended June 30, 2013. The increase in custodian and other fiduciary service fees was primarily due to an increase in assets under custody and the expansion of our wealth management business resulting from our increased marketing efforts.

Consultancy and Advisory Fees

Consultancy and advisory fees increased by 141.9% from RMB31 million for the six months ended June 30, 2012 to RMB75 million for the six months ended June 30, 2013. The increase in consultancy and advisory fees primarily reflected increased our introduction of new financial advisory services.

Bank Card Fees

Bank card fees increased by 100.0% from RMB24 million for the six months ended June 30, 2012 to RMB48 million for the six months ended June 30, 2013. The increase in bank card fees was primarily due to an increase in issuance of credit cards and increased transaction volume, which was largely attributable to our marketing efforts and continual introduction of new bank card products and features.

Guarantee and Commitment Fees

Guarantee and commitment fees increased by 209.1% from RMB11 million for the six months ended June 30, 2012 to RMB34 million for the six months ended June 30, 2013. The increase in guarantee and commitment fees was primarily attributable to our marketing efforts to promote our guarantee services.

Agency Commissions

Agency commissions primarily consist of fees from agency services provided to customers in connection with their purchase of debt securities. Agency commissions decreased by 25.0% from RMB20 million for the six months ended June 30, 2012 to RMB15 million for the six months ended June 30, 2013. The decrease in agency commissions was primarily due to lower demand among investors for debt securities.

Other Fee and Commission Income

Other fee and commission income increased by 56.4% from RMB39 million for the six months ended June 30, 2012 to RMB61 million for the six months ended June 30, 2013. The increase in other fee and commission income was primarily attributable to an increase in syndicated loans arrangements and the growth of our factoring business.

Fee and Commission Expenses

Our fee and commission expenses increased by 100.0% from RMB18 million for the six months ended June 30, 2012 to RMB36 million for the six months ended June 30, 2013. The increase in fee and commission expenses was primarily due to an increase in the proportion of fee- and commission-based services that have higher expenses.

Net Trading Income/ (Loss)

The table below sets forth the components of net trading income for the periods indicated.

	Six months ended June 30,	
	2012	2013
	(unaudited)	
	(in millions of RMB)	
Net trading income		
Net foreign exchange gains	10	11
Net gains from interest rate instruments	84	18
Total net trading income	**94**	**29**

Net trading income were RMB94 million and RMB29 million for the six months ended June 30, 2012 and 2013, respectively, which primarily consisted of foreign exchange gains and gains from interest rate instruments. Net gains from interest rate instruments were RMB84 million and RMB18 million for the six months ended June 30, 2012 and 2013, respectively. Net gains from interest rate instruments primarily reflected increases in the fair value of debt securities held for trading, which were largely attributable to our efforts to continually adapt our trading strategies to changing market dynamics.

Net Gains/ (Losses) on Investment Securities

Net gain/(loss) on investment securities consist of net realized gains or losses on disposal of investment securities. We had a net gain on investment securities of RMB51 million and RMB4 million for the six months ended June 30, 2012 and 2013, respectively, as we disposed of some of our debt securities at gains when the market prices were relatively high.

Other Operating Income

Other operating income primarily includes spread income from re-discounting discounted bills with other financial institutions. Other operating income decreased by 3.9% from RMB71 million for the six months ended June 30, 2012 to RMB68 million for the six months ended June 30, 2013, primarily reflecting the declining interest rate environment in 2013, which resulted in a decrease in income from transfer of discounted bills.

Operating Expenses

The table below sets forth the principal components of operating expenses for the periods indicated.

	Six months ended June 30,			
	2012		2013	
	Amount	% of total	Amount	% of total
	(unaudited)			
	(in millions of RMB except percentages)			
Staff costs	604	43.0%	636	42.1%
General and administrative expenses	305	21.7	322	21.3
Business tax and surcharges	345	24.6	371	24.5
Depreciation and amortization	94	6.7	116	7.7
Operating lease rentals	52	3.7	65	4.3
Others(1)	5	0.3	2	0.1
Total operating expenses	**1,404**	**100.0%**	**1,511**	**100.0%**

Note:
(1) Primarily consists of auditor's remuneration and loss on disposal of long-term assets.

Operating expenses increased by 7.6% from RMB1,404 million for the six months ended June 30, 2012 to RMB1,511 million for the six months ended June 30, 2013. The increase was primarily due to increases in staff costs, business tax and surcharges and depreciation and amortization.

Staff costs

Staff costs are the largest component of operating expenses, representing 43.0% and 42.1% of total operating expenses for the six months ended June 30, 2012 and 2013, respectively.

The table below sets forth the components of staff costs for the periods indicated.

	Six months ended June 30,	
	2012	2013
	(unaudited)	
	(in millions of RMB)	
Salaries and bonuses	459	460
Others[(1)]	145	176
Total staff costs	**604**	**636**

Note:
(1) Primarily consists of pension benefits, labor union expenses, employee training expenses and other social and welfare expenses.

Staff costs increased by 5.3% from RMB604 million for the six months ended June 30, 2012 to RMB636 million for the six months ended June 30, 2013. The increase was primarily due to (i) an increase in the number of employees in line with our overall business growth and (ii) our adjustment of employee remuneration standards to improve our competitiveness in retaining talent.

General and Administrative Expenses

General and administrative expenses increased by 5.6% from RMB305 million for the six months ended June 30, 2012 to RMB322 million for the six months ended June 30, 2013. The increase in general and administrative expenses was in line with the expansion of our branch network.

Business Tax and Surcharges

Interest income from loans and advances to customers and fee- and commission-based income are subject to a business tax of 5% and additional surcharges of up to 10% of the amount of business taxes paid. Business tax and surcharges increased by 7.5% from RMB345 million for the six months ended June 30, 2012 to RMB371 million for the six months ended June 30, 2013. The increase in business tax and surcharges were in line with the growth of our business.

Depreciation and Amortization

Depreciation and amortization increased by 23.4% from RMB94 million for the six months ended June 30, 2012 to RMB116 million for the six months ended June 30, 2013. The increase in depreciation and amortization primarily resulted from depreciation charges for the fixed assets of new branches and intangible assets associated with our research and development activities.

Operating Lease Rentals

Operating lease rentals increased by 25.0% from RMB52 million for the six months ended June 30, 2012 to RMB65 million for the six months ended June 30, 2013. The increase in operating lease rentals primarily reflected rent for new branches leased from third parties.

Other Operating Expenses

Other operating expenses decreased by 60.0% from RMB5 million for the six months ended June 30, 2012 to RMB2 million for the six months ended June 30, 2013.

Impairment Losses on Assets

The table below sets forth the principal components of impairment losses on assets for the periods indicated.

	Six months ended June 30,	
	2012	2013
	(unaudited)	
	(in millions of RMB)	
Loans and advances to customers	265	424
Impairment losses on assets	**265**	**424**

Impairment losses on assets increased by 60.0% from RMB265 million for the six months ended June 30, 2012 to RMB424 million for the six months ended June 30, 2013, due to an increase in the provisions for impairment losses on loans and advances to customers. See "Assets and Liabilities—Asset Quality of Our Loan Portfolio—Changes to the Allowance for Impairment Losses on Loans and Advances to Customers" for details on changes in our allowance for impairment losses on loans and advances.

Profit before Tax

As a result of the foregoing, profit before tax increased by 11.9% from RMB2,867 million for the six months ended June 30, 2012 to RMB3,207 million for the six months ended June 30, 2013.

Income Tax Expense

The table below sets forth a reconciliation between income tax expense calculated based on the applicable statutory income tax rate and actual income tax expense for the periods indicated.

	Six months ended June 30,	
	2012	2013
	(unaudited)	
	(in millions of RMB)	
Profit before tax	**2,867**	**3,207**
Tax calculated at the statutory tax rate (25%)	(717)	(802)
Add/(less) the tax effect of the following items:		
Expenses not deductible for tax purpose(1)	(15)	(5)
Income not subject to tax(2)	66	77
Tax filing differences from previous years	(48)	(25)
Income tax expense	**(714)**	**(755)**

Notes:
(1) Primarily consists of entertainment expenses and other expenses that are not deductible for tax purpose in PRC.
(2) Primarily consists of interest income from PRC treasury bonds.

Income tax expense increased by 5.7% from RMB714 million for the six months ended June 30, 2012 to RMB755 million for the six months ended June 30, 2013. The increase in income tax expense was in line with the increase in profit before tax. Our effective tax rates were 24.9% and 23.5% for the six months ended June 30, 2012 and 2013, respectively.

Net Profit for the Period

As a result of the foregoing, net profit for the period increased by 13.9% from RMB2,153 million for the six months ended June 30, 2012 to RMB2,452 million for the six months ended June 30, 2013.

Years Ended December 31, 2010, 2011 and 2012

Net Interest Income

The table below sets forth our interest income, interest expense and net interest income for the years indicated.

	Year ended December 31,		
	2010	2011	2012
	(in millions of RMB)		
Interest income	8,256	11,253	15,161
Interest expense	(2,239)	(4,164)	(6,592)
Net interest income	**6,017**	**7,089**	**8,569**

Net interest income increased by 17.8% from RMB6,017 million in 2010 to RMB7,089 million in 2011 and further increased by 20.9% to RMB8,569 million in 2012.

The table below sets forth the average balances of assets and liabilities, the related interest income or expense and the related average yields or cost for the years indicated.

	Year ended December 31,								
	2010			2011			2012		
	Average balance(1)	Interest income	Average yield(2)	Average balance(1)	Interest income	Average yield(2)	Average balance(1)	Interest income	Average yield(2)
	(in millions of RMB, except percentages)								
Assets									
Loans and advances to customers	109,407	6,061	5.54%	126,474	8,095	6.40%	149,322	10,697	7.16%
Investments securities and financial assets held for trading(3)	39,631	1,433	3.62	48,093	1,885	3.92	54,536	2,225	4.08
Balances with central bank(4)	24,363	351	1.44	33,177	499	1.50	42,616	647	1.52
Due from and placements with and loans to banks and other financial institutions(5)	15,093	411	2.72	16,092	774	4.81	36,431	1,592	4.37
Total interest-earning assets	**188,494**	**8,256**	**4.38%**	**223,836**	**11,253**	**5.03%**	**282,905**	**15,161**	**5.36%**
Allowance for impairment losses	(2,595)			(3,233)			(3,702)		
Non-interest-earning assets(6)	3,639			5,057			10,879		
Total assets	**189,538**			**225,660**			**290,082**		

	Year ended December 31,								
	2010			2011			2012		
	Average balance(1)	Interest expense	Average cost(2)	Average balance(1)	Interest expense	Average cost(2)	Average balance(1)	Interest expense	Average cost(2)
	(in millions of RMB, except percentages)								
Liabilities									
Deposits from customers	148,914	1,587	1.07%	169,145	2,491	1.47%	205,210	4,061	1.98%
Deposits and placements from banks and other financial institutions(7)	24,259	652	2.69	33,342	1,476	4.43	56,430	2,269	4.02
Debt securities in issue(8)	—	—	—	2,996	197	6.55	3,992	262	6.55
Total interest-bearing liabilities	**173,173**	**2,239**	**1.29%**	**205,483**	**4,164**	**2.03%**	**265,632**	**6,592**	**2.48%**
Non-interest-bearing liabilities(9)	2,210			4,771			4,920		
Total liabilities	**175,383**			**210,254**			**270,552**		
Net interest income	**6,017**			**7,089**			**8,569**		
Net interest spread(10)	**3.09%**			**3.00%**			**2.88%**		
Net interest margin(11)	**3.19%**			**3.17%**			**3.03%**		

Notes:

(1) Average balances of interest-earning assets and interest-bearing liabilities are derived from our management accounts. These amounts have not been audited.

(2) Calculated by dividing interest income/expense by average balance.

(3) Includes available-for-sale debt securities, held-to-maturity debt securities, debt securities held for trading and debt securities classified as loans and receivables.

(4) Primarily consists of statutory deposit reserves and surplus deposit reserves.

(5) Consists of due from and placements with and loans to banks and other financial institutions and financial assets held under resale agreements.

(6) Primarily consists of cash, interest receivables, property, plant and equipment, deferred income tax assets, investments in associates and derivative financial assets.

(7) Consists of deposits and placements from banks and other financial institutions and financial assets sold under repurchase agreements.

(8) Consist of subordinated bonds and financial bonds.

(9) Primarily consists of interest payable, accrued staff salaries and benefits, tax payable and derivative financial liabilities.

(10) Represents the difference between the average yield on total interest-earning assets and the average cost of total interest-bearing liabilities.

(11) Calculated by dividing net interest income by the average balance of total interest-earning assets.

The table below sets forth the changes in our interest income and interest expense due to changes in volume and rates for the years indicated. Changes in volume are measured by changes in the average balances, and changes in rate are measured by changes in the average rates. Changes caused by both volume and rate have been allocated to changes in rate.

	Year ended December 31,					
	2010 vs. 2011			2011 vs. 2012		
	Increase/(decrease) due to		Net increase/ (decrease)[3]	Increase/ (decrease) due to		Net increase/ (decrease)[3]
	Volume[1]	Rate[2]		Volume[1]	Rate[2]	
	(in millions of RMB, except percentages)					
Assets						
Loans and advances to customers	945	1,089	2,034	1,462	1,140	2,602
Investment securities and financial assets held for trading	306	146	452	253	87	340
Balances with central bank	127	21	148	142	6	148
Due from and placements with and loans to banks and other financial institutions	27	336	363	978	(160)	818
Change in interest income	**1,405**	**1,592**	**2,997**	**2,835**	**1,073**	**3,908**
Liabilities						
Deposits from customers	216	688	904	531	1,039	1,570
Deposits and placements from banks and other financial institutions	244	580	824	1,022	(229)	793
Debt securities in issue	—	197	197	65	—	65
Change in interest expense	**460**	**1,465**	**1,925**	**1,618**	**810**	**2,428**
Change in net interest income	**945**	**127**	**1,072**	**1,217**	**263**	**1,480**

Notes:

(1) Represents the average balance for the year minus the average balance for the previous year, multiplied by the average yield/cost for the previous year.

(2) Represents the average yield/cost for the year minus the average yield/cost for the previous year, multiplied by the average balance for the previous year.

(3) Represents interest income/expense for the year minus interest income/expense for the previous year.

Interest Income

Interest income increased by 34.7% from RMB11,253 million in 2011 to RMB15,161 million in 2012, primarily due to an increase in the average balance of interest-earning assets from RMB223,836 million in 2011 to RMB282,905 million in 2012, as well as an increase in the average yield on interest-earning assets from 5.03% in 2011 to 5.36% in 2012.

Interest income increased by 36.3% from RMB8,256 million in 2010 to RMB11,253 million in 2011, primarily due to an increase in the average balance of interest-earning assets from RMB188,494 million in 2010 to RMB223,836 million in 2011, as well as an increase in the average yield on interest-earning assets from 4.38% in 2010 to 5.03% in 2011.

Interest Income from Loans and Advances to Customers

Interest income from loans and advances to customers is the largest component of interest income, representing 73.4%, 71.9% and 70.6% of total interest income in 2010, 2011 and 2012, respectively.

The table below sets forth the average balance, interest income and average yield in respect of loans and advances to customers by category for the years indicated.

	Year ended December 31,								
	2010			2011			2012		
	Average balance	Interest income	Average yield	Average balance	Interest income	Average yield	Average balance	Interest income	Average yield
	(in millions of RMB, except percentages)								
Corporate loans	81,133	4,702	5.79%	93,612	6,124	6.54%	103,716	7,868	7.59%
Retail loans	22,484	1,151	5.12	28,764	1,637	5.69	33,494	2,107	6.29
Discounted bills	5,790	208	3.59	4,098	334	8.16	12,112	722	5.97
Total loans and advances to customers	**109,407**	**6,061**	**5.54%**	**126,474**	**8,095**	**6.40%**	**149,322**	**10,697**	**7.16%**

Interest income from loans and advances to customers increased by 32.1% from RMB8,095 million in 2011 to RMB10,697 million in 2012, primarily due to an increase in the average balance of loans and advances to customers from RMB126,474 million in 2011 to RMB149,322 million in 2012, as well as an increase in the average yield on loans and advances to customers from 6.40% in 2011 to 7.16% in 2012.

Interest income from loans and advances to customers increased by 33.6% from RMB6,061 million in 2010 to RMB8,095 million in 2011, primarily due to an increase in the average balance of loans and advances to customers from RMB109,407 million in 2010 to RMB126,474 million in 2011, as well as an increase in the average yield on loans and advances to customers from 5.54% in 2010 to 6.40% in 2011.

2012 Compared to 2011. Interest income from corporate loans increased by 28.5% from RMB6,124 million in 2011 to RMB7,868 million in 2012, primarily due to an increase in the average balance of corporate loans from RMB93,612 million in 2011 to RMB103,716 million in 2012, as well as an increase in the average yield on corporate loans from 6.54% in 2011 to 7.59% in 2012. The increase in the average balance of corporate loans was primarily the result of (i) increased market demand for corporate loans driven by Anhui's strong economic growth and (ii) our efforts to expand our trade finance business to capitalize on the growth of the commercial trading and logistics industries. The increase in the average yield on corporate loans was primarily due to (i) the continued effect of the increases in the PBOC benchmark interest rates in 2011 and (ii) increased market demand for corporate loans, allowing us to charge higher interest rates.

Interest income from retail loans increased by 28.7% from RMB1,637 million in 2011 to RMB2,107 million in 2012, primarily due to an increase in the average balance of retail loans from RMB28,764 million in 2011 to RMB33,494 million in 2012, as well as an increase in the average yield on retail loans from 5.69% in 2011 to 6.29% in 2012. The increase in the average balance of retail loans was primarily attributable to our efforts to expand our retail loan business. The increase in the average yield on retail loans was primarily due to the continued effect of the increases in the PBOC benchmark interest rates in 2011.

Interest income from discounted bills increased by 116.5% from RMB334 million in 2011 to RMB722 million in 2012, primarily due to an increase in the average balance of discounted bills from RMB4,098 million in 2011 to RMB12,112 million in 2012, which was partially offset by a decrease in the average yield on discounted bills from 8.16% in 2011 to 5.97% in 2012. The increase in the average balance of discounted bills was primarily attributable to our efforts to increase our position in discounted bills to improve our liquidity. The decrease in the average yield on discounted bills primarily reflected a declining interest rate environment as a result of increased liquidity in the market.

2011 Compared to 2010. Interest income from corporate loans increased by 30.2% from RMB4,702 million in 2010 to RMB6,124 million in 2011, primarily due to an increase in the average balance of corporate loans from RMB81,133 million in 2010 to RMB93,612 million in 2011, as well as an increase in the average yield on corporate loans from 5.79% in 2010 to 6.54% in 2011. The increase in the average balance of corporate loans was primarily the result of (i) increased market demand for corporate loans driven by Anhui's strong economic growth and (ii) our efforts to expand our trade finance business to capitalize on the growth of the commercial trading and logistics industries. The increase in the average yield on corporate loans was primarily due to (i) the increases in the PBOC benchmark interest rates in 2010 and 2011 and (ii) increased market demand for corporate loans, allowing us to charge higher interest rates.

Interest income from retail loans increased by 42.2% from RMB1,151 million in 2010 to RMB1,637 million in 2011, primarily due to an increase in the average balance of retail loans from RMB22,484 million in 2010 to RMB28,764 million in 2011, as well as an increase in the average yield on retail loans from 5.12% in 2010 to 5.69% in 2011. The increase in the average balance of retail loans was primarily attributable to our efforts to expand our retail loan business. The increase in the average yield on retail loans was primarily due to the increases in the PBOC benchmark interest rates in 2010 and 2011.

Interest income from discounted bills increased by 60.6% from RMB208 million in 2010 to RMB334 million in 2011, primarily due to an increase in the average yield on discounted bills from 3.59% in 2010 to 8.16% in 2011, which was partially offset by a decrease in the average balance of discounted bills from RMB5,790 million in 2010 to RMB4,098 million in 2011. The increase in the average yield on discounted bills was primarily due to the increases in the PBOC benchmark interest rates in 2010 and 2011 and tightened liquidity in the market, allowing us to achieve better discount rates. The decrease in the average balance of discounted bills was primarily due to our adjustment of our position in discounted bills based on our liquidity needs.

Interest Income from Investment Securities and Financial Assets Held for Trading

2012 Compared to 2011. Interest income from investment securities and financial assets held for trading increased by 18.0% from RMB1,885 million in 2011 to RMB2,225 million in 2012, primarily due to an increase in the average balance of investment securities and financial assets held for trading from RMB48,093 million in 2011 to RMB54,536 million in 2012, as well as an increase in the average yield on investment securities and financial assets held for trading from 3.92% in 2011 to 4.08% in 2012. The increase in the average balance was primarily due to an increase in the amount of funds available for investment.

2011 Compared to 2010. Interest income from investment securities and financial assets held for trading increased by 31.5% from RMB1,433 million in 2010 to RMB1,885 million in 2011, primarily due to an increase in the average balance of investment securities and financial assets held for trading from RMB39,631 million in 2010 to RMB48,093 million in 2011, as well as an increase in the average yield on investment securities and financial assets held for trading from 3.62% in 2010 to 3.92% in 2011. The increase in the average balance was primarily due to an increase in the amount of funds available for investment. The increase in the average yield was primarily attributable to (i) the increases in the PBOC benchmark interest rates in 2010 and 2011 and (ii) our efforts to optimize our investment portfolio to increase investment returns.

Interest Income from Balances with Central Bank

2012 Compared to 2011. Interest income from balances with central bank increased by 29.7% from RMB499 million in 2011 to RMB647 million in 2012, primarily due to an increase in the average balances with central bank from RMB33,177 million in 2011 to RMB42,616 million in 2012, as well as a slight increase in the average yield on balances with central bank from 1.50% in 2011 to 1.52% in 2012. The increase in the average balances with central bank was primarily due to an increase in statutory deposit reserves, reflecting an increased deposits from customers, partially offset by a decrease in the statutory deposit reserve ratio in 2012.

2011 Compared to 2010. Interest income from balances with central bank increased by 42.2% from RMB351 million in 2010 to RMB499 million in 2011, primarily due to an increase in the average balances with central bank from RMB24,363 million in 2010 to RMB33,177 million in 2011, as well as a slight increase in the average yield on balances with central bank from 1.44% in 2010 to 1.50% in 2011. The increase in the average balances with central bank was primarily due to an increase in statutory deposit reserves, reflecting the growth of deposits from customers and the increases in the statutory deposit reserve ratio in 2011.

Interest Income from Due from and Placements with and loans to Banks and Other Financial Institutions

2012 Compared to 2011. Interest income from due from and placements with and loans to banks and other financial institutions increased by 105.7% from RMB774 million in 2011 to RMB1,592 million in 2012, primarily due to an increase in the average balance from RMB16,092 million in 2011 to RMB36,431 million in 2012, which was partially offset by a decrease in average yield from 4.81% in 2011 to 4.37% in 2012. The increase in the average balance was primarily due to a significant increase in our purchases of bills under resale agreements, which were primarily funded by proceeds from the sales of bills under repurchase agreements and deposits from banks and other financial institutions. The decrease in the average yield primarily reflected lower interbank lending rates resulting from increased liquidity in the market.

2011 Compared to 2010. Interest income from due from and placements with and loans to banks and other financial institutions increased by 88.3% from RMB411 million in 2010 to RMB774 million in 2011, primarily due to an increase in the average balance from RMB15,093 million in 2010 to RMB16,092 million in 2011, as well as an increase in the average yield from 2.72% in 2010 to 4.81% in 2011. The increase in the average balance was primarily due to increased lending to banks and other financial institutions. The increase in average yield was primarily due to higher interbank lending rates resulting from tightened liquidity in the market.

Interest Expense

Interest expense increased by 58.3% from RMB4,164 million in 2011 to RMB6,592 million in 2012, primarily due to an increase in the average balance of interest-bearing liabilities from RMB205,483 million in 2011 to RMB265,632 million in 2012, as well as an increase in the average cost of interest-bearing liabilities from 2.03% in 2011 to 2.48% in 2012.

Interest expense increased by 86.0% from RMB2,239 million in 2010 to RMB4,164 million in 2011, primarily due to an increase in the average balance of interest-bearing liabilities from RMB173,173 million in 2010 to RMB205,483 million in 2011, as well as an increase in the average cost of interest-bearing liabilities from 1.29% in 2010 to 2.03% in 2011.

Interest Expense on Deposits from Customers

Interest expense on deposits from customers represented 70.9%, 59.8% and 61.6% of interest expense in 2010, 2011 and 2012, respectively.

The table below sets forth the average balance, interest expense and average cost for the components of deposit from customers for the years indicated.

	Year ended December 31,								
	2010			2011			2012		
	Average balance	Interest expense	Average cost	Average balance	Interest expense	Average cost	Average balance	Interest expense	Average cost
	(in millions of RMB, except percentages)								
Corporate deposits									
Time	25,932	718	2.77%	29,465	1,121	3.80%	50,006	1,918	3.84%
Demand	76,543	464	0.61	84,760	642	0.76	85,970	660	0.77
Subtotal	102,475	1,182	1.15%	114,225	1,763	1.54%	135,976	2,578	1.90%
Retail deposits									
Time	16,176	350	2.16%	19,520	517	2.65%	23,178	731	3.15%
Demand	13,731	50	0.36	16,435	80	0.49	19,787	85	0.43
Subtotal	29,907	400	1.34%	35,955	597	1.66%	42,965	816	1.90%
Others(1)	16,532	5	0.03%	18,965	131	0.69%	26,269	667	2.54%
Total deposits from customers	**148,914**	**1,587**	**1.07%**	**169,145**	**2,491**	**1.47%**	**205,210**	**4,061**	**1.98%**

Note:
(1) Primarily consists of pledged deposits held as collateral.

Interest expense on deposits from customers increased by 63.0% from RMB2,491 million in 2011 to RMB4,061 million in 2012, primarily due to an increase in the average balance of deposits from customers from RMB169,145 million in 2011 to RMB205,210 million in 2012, as well as an increase in the average cost of deposits from customers from 1.47% in 2011 to 1.98% in 2012.

Interest expense on deposits from customers increased by 57.0% from RMB1,587 million in 2010 to RMB2,491 million in 2011, primarily due to an increase in the average balance of deposits from customers from RMB148,914 million in 2010 to RMB169,145 million in 2011, as well as an increase in the average cost of deposits from customers from 1.07% in 2010 to 1.47% in 2011.

2012 compared to 2011. Interest expense on corporate deposits increased by 46.2% from RMB1,763 million in 2011 to RMB2,578 million in 2012, primarily due to an increase in the average balance of corporate deposits from RMB114,225 million in 2011 to RMB135,976 million in 2012, as well as an increase in the average cost of corporate deposits from 1.54% in 2011 to 1.90% in 2012. The increase in the average balance of corporate deposits was primarily attributable to our marketing efforts to maintain the growth in our corporate deposits. The increase in the average cost of corporate deposits was primarily due to (i) the increases in the maximum deposit rates in 2012 and (ii) an increase in time deposits as a percentage of total corporate deposits.

Interest expense on retail deposits increased by 36.7% from RMB597 million in 2011 to RMB816 million in 2012, primarily due to an increase in the average balance of retail deposits from RMB35,955 million in 2011 to RMB42,965 million in 2012, as well as an increase in the average cost of retail deposits from 1.66% in 2011 to 1.90% in 2012. The increase in the average balance of retail deposits was primarily attributable to our marketing efforts to expand our retail banking business. The increase in the average cost of retail deposits was primarily due to the increases in the maximum deposit rates in 2012.

2011 Compared to 2010. Interest expense on corporate deposits increased by 49.2% from RMB1,182 million in 2010 to RMB1,763 million in 2011, primarily due to an increase in the average balance of corporate deposits RMB102,475 million in 2010 to RMB114,225 million in 2011, as well as an increase in the average cost of corporate deposits from 1.15% in 2010 to 1.54% in 2011. The increase in the average balance of corporate deposits was primarily attributable to our marketing efforts to maintain the growth in our corporate deposits. The increase in the average cost of corporate deposits was primarily due to the increases in the PBOC benchmark interest rates in 2010 and 2011.

Interest expense on retail deposits increased by 49.3% from RMB400 million in 2010 to RMB597 million in 2011, primarily due to an increase in the average balance of retail deposits from RMB29,907 million in 2010 to RMB35,955 million in 2011, as well as an increase in the average cost of retail loans from 1.34% in 2010 to 1.66% in 2011. The increase in the average balance of retail loans was primarily attributable to our marketing efforts to expand our retail banking business. The increase in the average cost of retail loans was primarily due to the increases in the PBOC benchmark interest rates in 2010 and 2011.

Interest Expense on Deposits and Placements from Banks and Other Financial Institutions

2012 compared to 2011. Interest expense on deposits and placements from banks and other financial institutions increased by 53.7% from RMB1,476 million in 2011 to RMB2,269 million in 2012, primarily due to an increase in the average balance from RMB33,342 million in 2011 to RMB56,430 million in 2012, which was partially offset by a decrease in the average cost from 4.43% in 2011 to 4.02% in 2012. The increase in the average balance was primarily due to our increased use of repurchase agreements to fund our purchases of bills under resale agreements to earn spread income. The decrease in the average cost was primarily due to lower interbank lending rates resulting from increased liquidity in the market.

2011 compared to 2010. Interest expense on deposits and placements from banks and other financial institutions increased by 126.4% from RMB652 million in 2010 to RMB1,476 million in 2011, primarily due to an increase in the average balance from RMB24,259 million in 2010 to RMB33,342 million in 2011, as well as an increase in the average cost from 2.69% in 2010 to 4.43% in 2011. The increase in the average balance was primarily due to higher interbank borrowings to satisfy our liquidity needs. The increase in the average cost was primarily due to higher interbank lending rates resulting from tightened liquidity in the market.

Interest Expense on Debt Securities in Issue

Interest expense on debt securities in issue increased by 33.0% from RMB197 million in 2011 to RMB262 million in 2012, primarily due to an increase in the average balance of debt securities in issue from RMB2,996 million in 2011 to RMB3,992 million in 2012. The increase in the average balance of debt securities in issue was primarily due to our issuance of approximately RMB4.0 billion subordinated debts in April 2011. We did not incur any interest expenses on debt securities in issue in 2010.

Net Interest Spread and Net Interest Margin

Net interest spread decreased from 3.09% in 2010 to 3.00% in 2011 and further decreased to 2.88% in 2012. Net interest margin decreased from 3.19% in 2010 to 3.17% in 2011 and further decreased to 3.03% in 2012. The decrease in both net interest spread and net interest margin primarily resulted from higher interest expenses, reflecting efforts to optimize our funding structure and address our liquidity needs through issuing subordinated debt and increased time deposits and deposits placed with us by other banks and financial institutions.

Net Fee and Commission Income

Net fee and commission income represented 4.0%, 5.4% and 4.3% of operating income in 2010, 2011 and 2012, respectively. The table below sets forth the principal components of net fee and commission income for the years indicated.

	Year ended December 31,		
	2010	**2011**	**2012**
	(in millions of RMB)		
Fee and commission income			
Settlement and clearing fees	53	74	75
Custodian and other fiduciary service fees	11	21	66
Consultancy and advisory fees	113	159	65
Bank card fees	27	46	60
Guarantee and commitment fees	3	36	42
Agency commissions	59	73	42
Others(1)	28	52	102
Subtotal	294	461	452
Fee and commission expenses	**(43)**	**(48)**	**(56)**
Net fee and commission income	**251**	**413**	**396**

Note:
(1) Primarily consists of syndicated loan fees, debt underwriting fees, international trade financing arrangement fees and domestic factoring fees.

Net fee and commission income decreased by 4.1% from RMB413 million in 2011 to RMB396 million in 2012, primarily due to decreases in consultancy and advisory fees and agency commissions, partially offset by an increase in custodian and other fiduciary service fees.

Net fee and commission income increased by 64.5% from RMB251 million in 2010 to RMB413 million in 2011, primarily attributable to a combination of increases in all categories of fees and commissions, particularly consultancy and advisory fees, guarantee and commitment fees, settlement and clearing fees and bank card fees.

Settlement and Clearing Fees

Settlement and clearing fees increased by 39.6% from RMB53 million in 2010 to RMB74 million in 2011. The increase in settlement and clearing fees was primarily attributable to the growths in transactional volume resulting from our increased marketing efforts. Settlement and clearing fees remained stable at RMB75 million in 2012 as compared with RMB74 million in 2011.

Custodian and Other Fiduciary Service Fees

Custodian and other fiduciary service fees increased by 90.9% from RMB11 million in 2010 to RMB21 million in 2011 and further increased by 214.3% to RMB66 million in 2012. The increases in custodian and other fiduciary service fees were primarily due to an increase in assets under custody and the expansion of our wealth management business resulting from our increased marketing efforts.

Consultancy and Advisory Fees

Consultancy and advisory services decreased by 59.1% from RMB159 million in 2011 to RMB65 million in 2012 as we ceased to charge fees on certain financial advisory services in accordance with the relevant CBRC requirements in 2012. Consultancy and advisory fees increased by 40.7% from RMB113 million in 2010 to RMB159 million in 2011, primarily reflecting increased demand for loan arrangement services driven by the growth of our corporate and personal loan customer base.

Bank Card Fees

Bank card fees increased by 70.4% from RMB27 million in 2010 to RMB46 million in 2011 and further increased by 30.4% to RMB60 million in 2012. The increases in bank card fees were primarily due to an increase in issuance of credit cards and increased transaction volume, which was largely attributable to our marketing efforts and continual introduction of new bank card products and features.

Guarantee and Commitment Service Fees

Guarantee service fee increased by 1,100.0% from RMB3 million in 2010 to RMB36 million in 2011, and further increased by 16.7% to RMB42 million in 2012. Guarantee service fee increased significantly from 2010 to 2011 as we began to charge fees on loan commitment services in 2011 in accordance with the relevant CBRC requirements. We ceased to charge fees on certain loan commitment services in 2012 in accordance with the relevant CBRC requirements, which resulted in a slower growth of guarantee and commitment service fees in 2012.

Agency Commissions

Agency commissions decreased by 42.5% from RMB73 million in 2011 to RMB42 million in 2012. The decrease in agency commissions was primarily due to lower demand among investors for debt securities. Agency commissions increased by 23.7% from RMB59 million in 2010 to RMB73 million in 2011, primarily due to increased demand for our agency services.

Other Fee and Commission Income

Other fee and commission income increased by 85.7% from RMB28 million in 2010 to RMB52 million in 2011 and further increased by 96.2% to RMB102 million in 2012. The increases in other fee and commission income were primarily attributable to the increases in syndicated loans arrangements and debt underwriting transactions.

Fee and Commission Expenses

Fee and commission expenses increased by 11.6% from RMB43 million 2010 to RMB48 million in 2011 and further increased by 16.7% to RMB56 million in 2012. The increases in fee and commission expenses were in line with the expansion of our fee- and commission-based businesses.

Net Trading Income/(Loss)

The table below sets forth the components of net trading income/(loss) for the years indicated.

	Year ended December 31,		
	2010	2011	2012
	(in millions of RMB)		
Net trading income/(loss)			
Net foreign exchange gains	21	17	21
Net gains/(losses) from interest rate instruments	(53)	35	19
Total net trading income/(loss)	**(32)**	**52**	**40**

In 2011 and 2012, net trading income was RMB52 million and RMB40 million, respectively, which primarily consisted of foreign exchange gains and gains from interest rate instruments. In 2010, our trading loss was RMB32 million, primarily reflecting losses from interest rate instruments, which was partially offset by foreign exchange gains.

Net foreign exchange gains increased from RMB17 million in 2011 to RMB21 million in 2012, primarily due to an increase in the volume of foreign exchange transactions resulting from our efforts to expand our customer base. Net foreign exchange gains decreased from RMB21 million in 2010 to RMB17 million in 2011, primarily due to (i) a general decrease in the volume of foreign exchange transactions in Anhui due to the fluctuations in US dollar and Euro exchange rates and (ii) increased market competition, which resulted in a decrease in gains realized from our foreign exchange transactions.

In 2011 and 2012, net gain from interest rate instruments were RMB35 million and RMB19 million, respectively, primarily reflecting increases in the fair value of debt securities held for trading, which were largely attributable to our efforts to continually adapt our trading strategies to changing market dynamics. In 2010, net loss from interest rate instruments was RMB53 million, primarily due to a decrease in the fair value of debt securities held for trading reflecting an increase in market yield.

Net Gains/(Losses) on Investment in securities

We had net gains on investment securities of RMB30 million and RMB67 million in 2011 and 2012, respectively, as we disposed of some of our debt securities at gains when the market prices were relatively high. We had a net loss on investment securities of RMB32 million in 2010 as we disposed of some of our debt securities to avoid further losses in an increasingly volatile interest rate environment.

Other Operating Income

Other operating income increased by 150.8% from RMB65 million in 2011 to RMB163 million in 2012, primarily reflecting an increase in the volume of discounted bills transferred to other financial institutions. Other operating income remained stable at RMB65 million in 2011 as compared with RMB66 million in 2010.

Operating Expenses

The table below sets forth the principal components of operating expenses for the years indicated.

	Year ended December 31,					
	2010		2011		2012	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
	(in millions of RMB except percentages)					
Staff costs	965	43.8%	1,000	40.0%	1,325	42.4%
General and administrative expenses	617	28.0	729	29.1	781	24.9
Business tax and surcharges	390	17.7	507	20.3	685	21.9
Depreciation and amortization	166	7.5	170	6.8	201	6.4
Operating lease rentals	58	2.6	75	3.0	123	3.9
Others(1)	7	0.4	19	0.8	16	0.5
Total	**2,203**	**100.0%**	**2,500**	**100.0%**	**3,132**	**100.0%**

Note:
(1) Primarily consists of auditor's remuneration and loss on disposal of long-term assets.

Operating expenses increased by 25.3% from RMB2,500 million in 2011 to RMB3,132 million in 2012. The increase was primarily due to increases in staff costs, business tax and surcharges and operating lease rentals.

Operating expenses increased by 13.5% from RMB2,203 million in 2010 to RMB2,500 million in 2011. The increase was primarily due to increases in business tax and surcharges, general and administrative expenses and staff costs.

Staff costs

Staff costs are the largest component of operating expenses, representing 43.8%, 40.0% and 42.4% of total operating expenses in 2010, 2011 and 2012, respectively.

The table below sets forth the components of staff costs for the years indicated.

	Year ended December 31,		
	2010	2011	2012
	(in millions of RMB)		
Salaries and bonuses	747	780	986
Others[(1)]	218	220	339
Total staff costs	**965**	**1,000**	**1,325**

Note:
(1) Primarily consists of pension benefits, labor union expenses, employee training expenses and other social and welfare expenses.

Staff costs increased by 3.6% from RMB965 million in 2010 to RMB1,000 million in 2011 and further increased by 32.5% to RMB1,325 million in 2012. The increases in staff costs were primarily due to (i) an increase in the number of employees in line with our overall business growth and (ii) our adjustment of employee remuneration standards to improve our competitiveness in retaining talent.

General and Administrative Expenses

General and administrative expenses increased by 18.2% from RMB617 million in 2010 to RMB729 million in 2011 and further increased by 7.1% to RMB781 million in 2012. The increases in general and administrative expenses were in line with the expansion of our branch network.

Business Tax and Surcharges

Business tax and surcharges increased by 30.0% from RMB390 million in 2010 to RMB507 million in 2011 and further increased by 35.1% to RMB685 million in 2012. The increases in business tax and surcharges were in line with the increase in our operating income.

Depreciation and Amortization

Depreciation and amortization increased by 2.4% from RMB166 million in 2010 to RMB170 million in 2011 and further increased by 18.2% to RMB201 million in 2012. The increases in depreciation and amortization primarily resulted from depreciation charges for the fixed assets of new branches and intangible assets associated with our research and development activities.

Operating Lease Rentals

Operating lease rentals increased by 29.3% from RMB58 million in 2010 to RMB75 million in 2011 and further increased by 64.0% to RMB123 million in 2012. The increases in operating lease rentals primarily reflected rent for new branches leased from third parties.

Other Operating Expenses

Other operating expenses decreased by 15.8% from RMB19 million in 2011 to RMB16 million in 2012, primarily reflecting a decrease in auditor's remuneration. Other operating expenses increased by 171.4% from RMB7 million in 2010 to RMB19 million in 2011, which was in line with our business expansion.

Impairment Losses on Assets

The table below sets forth the principal components of impairment losses on assets for the years indicated.

	Year ended December 31,		
	2010	2011	2012
	(in millions of RMB)		
Loans and advances to customers	(578)	(597)	(468)
Others	—	18[1]	10[2]
Impairment losses on assets	**(578)**	**(579)**	**(458)**

Notes:
(1) Primarily consists of reversal of provisions for impairment losses on foreclosed assets and reversal of provisions for impairment losses on placements with and loans to banks and other financial institutions.
(2) Primarily consists of reversal of provisions for impairment losses on placements with and loans to banks and other financial institutions, provisions for impairment losses on available-for-sale financial assets and reversal of provisions for impairment losses on foreclosed assets.

Impairment losses on assets decreased by 20.9% from RMB579 million in 2011 to RMB458 million in 2012, primarily due to a decrease in provisions for impairment losses on loans and advances to customers. See "Assets and Liabilities—Asset Quality of Our Loan Portfolio—Changes to the Allowance for Impairment Losses on Loans and Advances to Customers" for details on changes in our allowance for impairment losses on loans and advances. Impairment losses on assets remained stable at RMB579 million in 2011 as compared with RMB578 million in 2010.

Profit before Tax

As a result of the foregoing, profit before tax increased by 31.5% from RMB3,502 million in 2010 to RMB4,604 million in 2011 and further increased by 23.4% to RMB5,680 million in 2012.

Income Tax Expense

The table below sets forth a reconciliation between income tax expense calculated based on the applicable statutory income tax rate and actual income tax expense for the years indicated.

	Year ended December 31,		
	2010	2011	2012
	(in millions of RMB)		
Profit before tax	**3,502**	**4,604**	**5,680**
Tax calculated at the statutory tax rate (25%)	(876)	(1,151)	(1,420)
Add/(less) the tax effect of the following items:			
Expenses not deductible for tax purpose[1]	(45)	(33)	(48)
Income not subject to tax[2]	88	103	145
Tax filing differences from previous years	33	(30)	(51)
Income tax expense	**(800)**	**(1,111)**	**(1,374)**

Notes:
(1) Primarily consists of entertainment expenses and other expenses that are not deductible for tax purpose in PRC.
(2) Primarily consists of interest income from PRC treasury bonds.

Income tax expense increased by 38.9% from RMB800 million in 2010 to RMB1,111 million in 2011 and further increased by 23.7% to RMB1,374 million in 2012. The increases in income tax expenses were in line with the increases in profit before tax. Our effective tax rates were 22.8%, 24.1% and 24.2% in 2010, 2011 and 2012, respectively.

Profit for the Year

As a result of the foregoing, net profit for the year increased by 29.3% from RMB2,702 million in 2010 to RMB3,493 million in 2011 and further increased by 23.3% to RMB4,306 million in 2012.

SUMMARY OF SEGMENT RESULTS

Summary of Business Segments

We operate three principal lines of business: corporate banking, retail banking and treasury operations. The table below sets forth our operating income for each of our principal business segments for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2010		2011		2012		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
							(unaudited)			
	(in millions of RMB, except percentages)									
Corporate banking	4,080	65.1%	4,823	63.0%	5,333	57.8%	2,676	59.1%	3,003	58.7%
Retail banking	1,395	22.3	1,892	24.7	2,394	25.9	1,148	25.4	1,402	27.4
Treasury operations[(1)]	729	11.5	871	11.4	1,345	14.6	629	13.9	645	12.6
Others and unallocated	66	1.1	65	0.9	163	1.7	71	1.6	68	1.3
Total operating income	**6,270**	**100.0%**	**7,651**	**100.0%**	**9,235**	**100.0%**	**4,524**	**100.0%**	**5,118**	**100.0%**

Note:

(1) Primarily includes income from investment in debt securities and net interest income from repurchase and reverse repurchase transactions. Both financial assets held under resale agreements and financial assets sold under repurchase agreements increased significantly in 2012 and the six months ended June 30, 2012. See "Assets and Liabilities." As the increase in interest income earned on financial assets held under resale agreements was substantially offset by the increase in interest expense paid on financial assets sold under repurchase agreements, the substantial increase in financial assets held under resale agreements did not result in a corresponding increase in operating income from treasury operations.

Summary of Geographical Segment Information

In presenting information on the basis of geographical segments, operating income is allocated based on the location of the branch that generates the income. The table below sets forth the operating income attributable to each of our geographical segments for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2010		2011		2012		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
							(unaudited)			
	(in millions of RMB, except percentages)									
Anhui	6,022	96.0%	7,404	96.8%	8,963	97.1%	4,362	96.4%	4,914	96.0%
Jiangsu	248	4.0	247	3.2	272	2.9	162	3.6	204	4.0
Total operating income	**6,270**	**100.0%**	**7,651**	**100.0%**	**9,235**	**100.0%**	**4,524**	**100.0%**	**5,118**	**100.0%**

CASH FLOWS

The table below sets forth cash flows for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
				(unaudited)	
	(in millions of RMB)				
Net cash from/(used in) operating activities	12,319	13,256	1,309	121	4,802
Net cash (used in) investing activities	(9,976)	(254)	(9,147)	(13,927)	(10,840)
Net cash from/(used in) financing activities	(927)	3,179	(1,086)	(1,033)	4,039
Effect of exchange rate changes on cash and cash equivalents	(8)	(23)	(9)	(12)	(18)
Net increase/(decrease) in cash and cash equivalents	**1,408**	**16,158**	**(8,933)**	**(14,851)**	**(2,017)**

Cash Flows from Operating Activities

Cash inflows from operating activities are primarily attributable to (i) net increases in deposits from customers, (ii) net increase in financial assets sold under repurchase agreements, (iii) net increase in deposits and placements from banks and other financial institutions and (iv) net decrease in financial assets held for trading.

Net increase in deposits from customers was RMB8,590 million and RMB12,594 million for the six months ended June 30, 2012 and 2013, respectively. Net increase in financial assets sold under repurchase agreements was RMB27,098 million and RMB52,787 million for the six months ended June 30, 2012 and 2013, respectively. Net increase in deposits and placements from banks and other financial institutions was RMB19,910 million and RMB13,740 million for the six months ended June 30, 2012 and 2013, respectively. Net decrease in financial assets held for trading was RMB171 million for the six months ended June 30, 2012.

In 2010, 2011 and 2012, net increase in deposits from customers was RMB27,021 million, RMB43,998 million and RMB35,963 million, respectively. In 2010 and 2012, net increase in financial assets sold under repurchase agreements was RMB13,760 million and RMB31,699 million, respectively. In 2010 and 2011, net increase in deposits and placements from banks and other financial institutions was RMB3,627 million and RMB86 million, respectively. In 2010 and 2012, net decrease in financial assets held for trading was RMB55 million and RMB1,456 million, respectively.

Cash outflows from operating activities are primarily attributable to (i) net increase in loans and advances to customers, (ii) net increase in balances with central bank, (iii) net increase in financial assets held under resale agreements, (iv) net increase in amounts due from and placements with and loans to banks and other financial institutions and (v) interest expenses paid.

Net increase in loans and advances to customers was RMB17,056 million and RMB19,332 million for the six months ended June 30, 2012 and 2013, respectively. Net increase in balances with central bank was RMB3,239 million and RMB3,789 million for the six months ended June 30, 2012 and 2013, respectively. Net increase in financial assets held under resale agreements was RMB35,038 million and RMB54,083 million for the six months ended June 30, 2012 and 2013, respectively. Net increase in amounts due from and placements with and loans to banks and other financial institutions was RMB1,896 million for the six months ended June 30, 2012. We paid income tax of RMB954 million and RMB928 million for the six months ended June 30, 2012 and 2013, respectively.

In 2010, 2011 and 2012, net increase in loans and advances to customers was RMB20,535 million, RMB18,761 million and RMB26,470 million, respectively. In 2010, 2011 and 2012, net increase in balances with central bank was RMB8,223 million, RMB10,221 million and RMB7,291 million, respectively. In 2010 and 2012, net increase in financial assets held under resale agreements was RMB6,728 million and RMB32,881 million, respectively. In 2010, 2011 and 2012, we paid income tax of RMB772 million, RMB1,375 million and RMB1,439 million, respectively.

Cash Flows from Investing Activities

Cash inflows from investing activities primarily consisted of proceeds from disposal of investment securities. Our proceeds from the disposal of investment securities were RMB13,231 million and RMB18,914 million for the six months ended June 30, 2012 and 2013, respectively. In 2010, 2011 and 2012, our proceeds from the disposal of investment securities were RMB9,998 million, RMB10,330 million and RMB45,993 million, respectively.

Cash outflows from investing activities primarily consisted of payment for the purchases of investment securities. Our purchases of investment securities amounted to RMB27,922 million and RMB30,688 million for the six months ended June 30, 2012 and 2013, respectively. In 2010, 2011 and 2012, our purchases of investment securities amounted to RMB21,194 million, RMB12,199 million and RMB56,729 million, respectively.

Cash Flows from Financing Activities

Cash inflows from financing activities primarily consisted of proceeds from issuance of subordinated bonds and financial bonds. In April 2011, we issued an aggregate principal amount of RMB4.0 billion subordinated bonds. In March 2013, we issued two tranches of financial bonds with an aggregate principal amount of RMB5.0 billion.

Cash outflows from financing activities primarily consisted of dividends and interests paid on debt securities in issue. We paid cash dividends and interests of RMB1,033 million and RMB1,001 million for the six months ended June 30, 2012 and 2013, respectively. In 2010, 2011 and 2012, we paid cash dividends and interests of RMB927 million, RMB813 million and RMB1,086 million, respectively.

LIQUIDITY

We fund our loan and investment portfolios principally through customer deposits. Deposits from customers have been, and we believe will continue to be, a stable source of funding. Customer deposits with remaining maturities of less than one year represented 98.1%, 93.9%, 92.1% and 88.5% of total deposits from customers as of December 31, 2010, 2011 and 2012 and June 30, 2013, respectively.

We manage liquidity primarily by monitoring the maturities of assets and liabilities in an effort to ensure that we have sufficient funds to meet obligations as they become due. We have been focusing on maintaining stable sources of funding and increasing our customer deposits. We also invest in a significant amount of liquid assets, such as PBOC bills and government bonds, as well as financial assets with short maturities, such as financial assets held under resale agreements, short-term debt securities and discounted bills.

The table below sets forth the remaining maturities of our assets and liabilities as of June 30, 2013.

	As of June 30, 2013								
	On demand	Up to 1 month	1 month up to 3 months	3 months up to 1 year	1 year up to 5 years	Over 5 years	Past due	Without fixed term	Total
	(in millions of RMB)								
Financial Assets									
Loans and advances to customers, net	—	6,912	19,384	78,334	34,458	39,186	592	—	178,866
Investment securities and financial assets held for trading	—	7,572	4,972	7,705	29,844	18,827	—	16	68,936
Derivative financial assets	—	—	—	—	—	—	—	—	—
Cash and balances with central bank	2,367	57,283	—	—	—	—	—	—	59,650
Financial assets held under resale agreement	—	8,892	38,954	44,435	—	—	—	—	92,281
Due from banks and other financial institutions	1,487	766	854	1,060	—	—	—	—	4,167
Placements with and loans to banks and other financial institutions	—	8	232	653	—	—	—	—	893
Other financial assets	387	640	315	640	17	—	—	2,795	4,794
Total financial assets	**4,241**	**82,073**	**64,711**	**132,827**	**64,319**	**58,013**	**592**	**2,811**	**409,587**
Financial Liabilities									
Deposits from customers	136,325	14,339	23,517	48,973	27,382	1,601	—	—	252,137
Financial assets sold under repurchase agreements	—	24,375	40,955	35,340	—	—	—	—	100,670
Placements from banks and other financial institutions	—	629	274	—	—	—	—	—	903
Deposits from banks and other financial Institutions	253	2,377	1,970	9,100	6,000	—	—	—	19,700
Debt securities in issue	—	—	—	—	4,993	3,992	—	—	8,985
Derivative financial liabilities	—	—	—	—	—	—	—	—	—
Other financial liabilities	1,345	635	287	1,143	1,562	1	—	33	5,006
Total financial liabilities	**137,923**	**42,355**	**67,003**	**94,556**	**39,937**	**5,594**	**—**	**33**	**387,401**
Liquidity gap	(133,682)	39,718	(2,292)	38,271	24,382	52,419	592	2,778	22,186
Cumulative liquidity gap	(133,682)	(93,964)	(96,256)	(57,985)	(33,603)	18,816	19,408	22,186	—

CAPITAL RESOURCES

Shareholders' Equity

As of June 30, 2013, shareholders' equity amounted to RMB22,186 million, an increase of 8.3% from RMB20,481 million as of December 31, 2012. Shareholders' equity increased by 19.0% from RMB14,357 million as of December 31, 2010 to RMB17,084 million as of December 31, 2011 and further increased by 19.9% to RMB20,481 million as of December 31, 2012.

The table below sets forth the changes in shareholders' equity for the periods indicated.

	Shareholders' equity
	(in millions of RMB)
As of January 1, 2010	**12,809**
Net Profit for the year	2,702
Other comprehensive income	(337)
Dividend distribution	(817)
As of December 31, 2010	**14,357**
Net Profit for the year	3,493
Other comprehensive income	51
Dividend distribution	(817)
As of December 31, 2011	**17,084**
Net Profit for the year	4,306
Other comprehensive income	(92)
Dividend distribution	(817)
As of December 31, 2012	**20,481**
Net Profit for the period	2,452
Other comprehensive income	23
Capital injection from minority equity holders of subsidiaries	47
Dividend distribution	(817)
As of June 30, 2013	**22,186**

Debt

Subordinated Bonds

In April 2011, we issued an aggregate principal amount of RMB4.0 billion subordinated bonds. The bonds have a term of 15 years and bear a fixed interest rate of 6.55% per annum. We have an option to redeem the bonds in 2021.

Financial Bonds

In March 2013, we issued two tranches of financial bonds with an aggregate principal amount of RMB5.0 billion. The first tranche with an aggregate principal amount of RMB2.8 billion has a term of three years and bears a fixed interest rate of 4.30% per annum. The second tranche with an aggregate principal amount of RMB2.2 billion has a term of five years and bears a fixed interest rate of 4.50% per annum.

Capital Adequacy

We are subject to capital adequacy requirements promulgated by the CBRC. Prior to January 1, 2013, our core capital, supplementary capital and risk-weighted assets were calculated in accordance with the Administrative Measures for the Capital Adequacy Ratios of Commercial Banks.

The table below sets forth certain information relating to our capital adequacy as of December 31, 2010, 2011 and 2012.

	As of December 31,		
	2010	2011	2012
	(in millions of RMB, except percentages)		
Core capital			
Paid-up share capital	8,175	8,175	8,175
Capital reserve	1,721	1,773	1,681
Surplus reserve and general reserve	1,766	2,586	3,561
Profit and loss	2,696	3,732	6,240
Total core capital	14,358	16,266	19,657
Supplementary capital			
General provisions	1,175	1,756	2,224
Subordinated bonds	—	4,000	4,000
Other supplementary capital	—	—	6
Total supplementary capital	1,175	5,756	6,230
Total capital	**15,533**	**22,022**	**25,887**
Deductions			
Unconsolidated equity investment	(152)	(140)	(140)
Net capital	**15,381**	**21,882**	**25,747**
Risk-weighted assets	**127,581**	**149,055**	**190,110**
Core capital adequacy ratio	**11.19%**	**10.87%**	**10.30%**
Capital adequacy ratio	**12.06%**	**14.68%**	**13.54%**

The table below sets forth certain information relating to our capital adequacy as of June 30, 2013, which was calculated in accordance with the Provisional Administrative Measures for the Capital Management of Commercial Banks that became effective on January 1, 2013.

	As of June 30, 2013
	(in millions of RMB, except percentages)
Core tier 1 capital	22,182
Paid-up capital	8,175
Capital reserves	1,705
Surplus reserve and general and statutory reserves	5,582
Retained Earnings	6,678
Non-controlling interests	43
Regulatory deductions	**(67)**
Net core tier 1 capital	**22,115**
Net tier 1 capital	**22,121**
Tier 2 capital	**6,362**
Tier 2 capital instruments and premium	3,593
Surplus loan loss provisions	2,758
Regulatory deductions	**—**
Net capital	**28,483**
Risk-weighted assets	**239,263**
Credit risk-weighted assets	223,380
Market risk-weighted assets	1,220
Operational risk-weighted assets	14,663
Core tier 1 capital adequacy ratio	**9.24%**
Tier 1 capital adequacy ratio	**9.25%**
Capital adequacy ratio	**11.90%**

OFF-BALANCE SHEET COMMITMENTS

Off-balance sheet commitments primarily consist of bank bill acceptance, unused credit card limits, letters of credit and guarantees and loan commitments. The table below sets forth the contractual amounts of off-balance sheet commitments as of the dates indicated.

	As of December 31,			As of June 30,
	2010	2011	2012	2013
	(in millions of RMB)			
Credit commitments:				
Bank bill acceptance[1]	27,467	38,087	46,602	50,744
Letters of credit[2]	1,683	3,053	2,023	3,336
Unused credit card limits	516	544	1,709	2,278
Letters of guarantees[2]	1,656	1,753	1,675	1,774
Loan commitments[3]	52	298	467	406
Subtotal	31,374	43,735	52,476	58,538
Capital commitments	26	14	86	32
Operating lease commitments	174	288	496	731
Total	**31,574**	**44,037**	**53,058**	**59,301**

Notes:

(1) Bank bill acceptances refer to our undertakings to pay bank bills drawn on our customers.

(2) We issue letters of credit and guarantees to third parties to guarantee our customers' contractual obligations.

(3) Loan commitments represent our commitments to extend credit.

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The table below sets forth the face value of off-balance sheet contractual obligations by remaining contract maturity as of June 30, 2013.

	As of June 30, 2013			
	Up to 1 year	1 year up to 5 years	Over 5 years	Total
	(in millions of RMB)			
Off-balance sheet:				
Bank bill acceptance	50,744	—	—	50,744
Letters of credit	3,314	22	—	3,336
Unused credit card limits	1,139	1,139	—	2,278
Letters of guarantees	906	865	3	1,774
Loan commitments	127	279	—	406
Subtotal	56,230	2,304	3	58,538
Capital commitments	18	14	0	32
Operating lease commitments	116	374	241	731
Total	**56,364**	**2,693**	**244**	**59,301**

QUANTITATIVE AND QUALITATIVE ANALYSIS OF MARKET RISK

Market risk is the risk of financial loss arising from changes in the value of a financial instrument as a result of changes in interest rates, foreign exchange rates, equity prices and commodity prices and other market changes that affect market risk-sensitive instruments.

Interest Rate Risk

Our interest rate risk primarily arises from mismatches between the repricing periods of assets and liabilities. Repricing period mismatches may cause net interest income to be affected by fluctuations in the prevailing levels of market interest rates. We are exposed to interest rate risk through our day-to-day lending and deposit-taking activities as well as treasury operations. We manage our exposure to interest rate risk primarily through the management of the maturity profile of loans and deposits.

Repricing Gap Analysis

The table below sets forth the results of our gap analysis as of June 30, 2013 based on the earlier of (i) the next expected repricing dates and (ii) the final maturity dates for our assets and liabilities.

	As of June 30, 2013							
	Within one month	Up to 3 months	3 months up to 1 year	1 year up to 5 years	Over 5 years	Interest-earning/ bearing	Non-interest earning/ bearing	Total
	(in millions of RMB)							
Financial Assets								
Loans and advances to customers, net	52,463	18,670	101,570	5,478	685	178,866	0	178,866
Investment securities and financial assets held for trading	9,309	7,495	13,558	23,360	15,198	68,920	16	68,936
Derivative financial assets	0	0	0	0	0	0	0	0
Cash and balances with central bank	58,635	0	0	0	0	58,635	1,015	59,650
Financial assets held under resale agreement	8,892	38,954	44,435	0	0	92,281	0	92,281
Due from banks and other financial institutions	2,253	854	1,060	0	0	4,167	0	4,167
Placements with and loans to banks and other financial institutions	8	232	653	0	0	893	0	893
Other financial assets	0	0	0	0	0	0	1,992	1,992
Total financial assets	**131,560**	**66,205**	**161,276**	**28,838**	**15,883**	**403,762**	**3,023**	**406,785**
Financial Liabilities								
Deposits from customers	150,664	23,517	48,973	27,382	1,601	252,137	0	252,137
Derivative financial assets	0	0	0	0	0	0	0	0
Financial assets sold under repurchase agreements	24,375	40,955	35,340	0	0	100,670	0	100,670
Deposits from banks and other financial institutions	2,630	1,970	9,100	6,000	0	19,700	0	19,700
Placements from banks and other financial institutions	629	274	0	0	0	903	0	903
Debt securities in issue	0	0	0	4,993	3,992	8,985	0	8,985
Other financial liabilities	0	0	0	0	0	0	3,574	3,574
Total financial liabilities	**178,298**	**66,716**	**93,413**	**38,375**	**5,593**	**382,395**	**3,574**	**385,969**
Total repricing gap	**(46,738)**	**(511)**	**67,863**	**(9,537)**	**10,290**	**21,367**	**(551)**	**20,816**

Sensitivity Analysis

We use sensitivity analysis to measure the potential effect of changes in interest rates on net interest income. The table below sets forth the results of our interest rate sensitivity analysis based on our assets and liabilities as of June 30, 2013.

	As of June 30, 2013	
	Change in interest rates (in 100 basis points)	
	Decrease	Increase
Changes in net interest income (in millions of RMB)	**(1,012)**	**1,012**

Based on our assets and liabilities as of June 30, 2013, a 100 basis points increase or decrease in interest rates will result in an increase or a decrease in net interest income of RMB1,012 million for the year subsequent to June 30, 2013.

This sensitivity analysis, which is based on a static interest rate risk profile of assets and liabilities, is used for risk management purposes only. The analysis measures only the impact of changes in the interest rates (as reflected by the repricing of assets and liabilities) on net interest income as of June 30, 2013 and is based on the assumptions that (i) there is a parallel shift in the interest rates of interest-bearing assets and liabilities, (ii) demand deposits will not be repriced, (iii) all assets and liabilities that reprice are considered repriced in the middle of the respective periods and (iv) there are no other changes to the portfolio. Actual changes in net interest income resulting from increases or decreases in interest rates may differ from the results of our sensitivity analysis.

Exchange Rate Risk

We are exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on our financial position and cash flows. Our exchange rate risk primarily arises from currency mismatches in our assets and liabilities. We monitor our net currency positions to assess our exposure to exchange rate risk. We manage our exchange rate risk primarily by seeking to match our assets and liabilities on a currency-by-currency basis.

The table below sets forth our assets and liabilities by currency as of June 30, 2013.

	As of June 30, 2013			
	RMB	USD	Others	Total
	(in millions of RMB)			
Financial Assets				
Loans and advances to customers, net	177,428	1,417	21	178,866
Investment securities and financial assets held for trading	68,936	0	0	68,936
Derivative financial assets	0	0	0	0
Cash and balances with central bank	59,624	26	0	59,650
Financial assets held under resale agreement	92,281	0	0	92,281
Due from banks and other financial institutions	3,575	428	164	4,167
Placements with and loans to banks and other financial institutions	769	124	0	893
Other financial assets	1,991	1	0	1,992
Total financial assets	**404,604**	**1,996**	**185**	**406,785**
Financial Liabilities				
Deposits from customers	(251,536)	(583)	(18)	(252,137)
Derivative financial liabilities	0	0	0	0
Financial assets sold under repurchase agreements	(100,670)	0	0	(100,670)
Deposits from banks and other financial Institutions	(19,700)	0	0	(19,700)
Placements from banks and other financial Institutions	(157)	(746)	0	(903)
Debt securities in issue	(8,985)	0	0	(8,985)
Other financial liabilities	(3,569)	(5)	0	(3,574)
Total financial liabilities	**(384,617)**	**(1,334)**	**(18)**	**(385,969)**
Net balance sheet position	**19,987**	**662**	**167**	**20,816**

FINANCIAL DERIVATIVES

The following table sets forth the notional amount and the fair values of our financial derivatives as of the dates indicated.

	As of December 31,									As of June 30,		
	2010			2011			2012			2013		
	Notional Amount	Fair Value Assets	Fair Value Liabilities	Notional Amount	Fair Value Assets	Fair Value Liabilities	Notional Amount	Fair Value Assets	Fair Value Liabilities	Notional Amount	Fair Value Assets	Fair Value Liabilities
	(in thousands of RMB)											
Currency forwards	–	–	–	–	–	–	–	–	–	321	210	(91)
Total		**–**	**–**		**–**	**–**		**–**	**–**		**210**	**(91)**

CAPITAL EXPENDITURES

Our capital expenditures, which primarily consist of cash payment for the purchases of property and equipment and construction expenses, were RMB184 million, RMB252 million, RMB395 million and RMB88 million for the years ended December 2010, 2011 and 2012 and the six months ended June 30, 2013.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. The estimates that we use in applying our accounting policies may have a significant impact on our results of operations and financial positions included in this section and elsewhere in this prospectus. These estimates involve assumptions about such items as cash flows and discount rates used. Our estimates and assumptions are based on historical experience and expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgments are also made during the process of applying our accounting policies. Below is a summary of the accounting policies used in the preparation of our financial statements that we believe involve the most significant estimates and judgments.

Impairment Losses on Loans and Advances

We review our loan portfolio to assess impairment losses on a periodic basis unless there is evidence suggesting that an impairment loss have occurred. In determining whether an impairment loss exists, we make judgments as to whether there is any observable data indicating a measurable decrease in the estimated future cash flows from a loan portfolio when no decrease in cash flow is identified with any single loan in that portfolio. Evidences for impairment losses include (i) observable data indicating there has been adverse changes in the payment status of borrowers of loans within the portfolio and (ii) adverse changes in the national or local economic conditions that may result in defaults on loans within the portfolio. Our management estimates the future cash flows from a loan portfolio based on our historical loss experience with assets that exhibit similar credit risk characteristics and objective evidence of impairment. We review the methodologies and assumptions used to estimate the amount and timing of future cash flows regularly to minimize the difference between the estimated impairment losses and our actual impairment losses.

Fair Value of Financial Instruments

The fair value of financial instruments that are not quoted on active markets are determined by using valuation techniques. Valuation techniques used by us include, among others, discounted cash flow analysis and model. The discounted cash flow analysis and model uses only observable data to the extent possible. However, areas such as credit risk, volatilities and correlations require our management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Held-to-maturity Investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity investments. This classification requires significant judgment. In making this judgment, we evaluate our intention and ability to hold such investments to maturity. If we fail to hold these investments to maturity, we will be required to reclassify our entire held-to-maturity investment portfolio as available-for-sale investments and will not be allowed to classify any of our investments as held-to-maturity investments in the two subsequent fiscal years.

Income Tax

In the ordinary course of business, many transactions and calculations involve uncertainties in the ultimate tax determination, and significant estimates are required in determining the provision for income taxes. We recognize liabilities for anticipated tax audit issues based on estimates of whether additional taxes will become due. If the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period during which such a determination is made.

INDEBTEDNESS

As of September 30, 2013, we had the following indebtedness:

- Debt securities issued in an aggregate principal amount of RMB9,000 million, including subordinated bonds of RMB4,000 million and financial bonds of RMB5,000 million;
- deposits from customers, deposits and placements from banks and other financial institutions and financial assets sold under repurchase agreements that arose from the normal course of our banking business; and
- Bank bill acceptance, unused credit card limits, letters of credit and guarantees, loan commitments and other commitments and contingencies that arose from the normal course of our banking business.

Except as disclosed above, we did not have, as of September 30, 2013, our latest balance sheet date, any outstanding mortgages, charges, debentures or other loan capital (issued or agreed to be issued), bank overdrafts, loans, liabilities under acceptance or other similar indebtedness, hire purchase and finance lease commitments or any guarantees or other material contingent liabilities.

Our directors have confirmed that there has not been any material change in our indebtedness or contingent liabilities since September 30, 2013.

RULES 13.13 TO 13.19 OF THE LISTING RULES

We confirm that there are no circumstances which will trigger disclosure requirements under Rule 13.13 to Rule 13.19 of the Listing Rules.

PROFIT FORECAST FOR THE YEAR ENDING DECEMBER 31, 2013

The following unaudited pro forma forecast earnings per share for the year ending December 31, 2013 has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on January 1, 2013. This unaudited pro forma forecast earnings per share has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial results of the Group for the year ending December 31, 2013 or any future period.

Forecast consolidated profit attributable to shareholders of the Bank for the year ending December 31, 2013(1)	Not less than RMB5,010 million (equivalent to HK$6,373 million)(3)
Unaudited pro forma forecast earnings per Share(2)	Not less than RMB0.47 (equivalent to HK$0.60)(3)

Notes:

(1) The bases and assumptions on which the profit forecast has been prepared are set out in Appendix IV to this prospectus. The forecast consolidated profit attributable to shareholders of the Bank for the year ending December 31, 2013 is based on the audited consolidated results of the Group for the six months ended June 30, 2013, the unaudited consolidated results of the Group based on management accounts for the three months ended September 30, 2013 and a forecast of the consolidated results of the Group for the remaining three months ending December 31, 2013. The forecast has been prepared on the basis of accounting policies consistent in all material respects with those presently adopted by the Group as set out in note 3 of section II of the Accountant's Report, the text of which is set out in Appendix I to this prospectus.

(2) The calculation of the unaudited pro forma forecast earnings per Share for the year ending December 31, 2013 is based on the forecast consolidated profit attributable to shareholders of the Bank for the year ending December 31, 2013 and on the basis that 10,674,819,283 Shares were in issue during the entire period and assuming that the Global Offering had been completed on January 1, 2013. This calculation takes no account of any Shares which may be issued upon exercise of the Over-allotment Option.

(3) The translation of Renminbi into Hong Kong dollars is made at a rate of RMB1.00 to HK$1.272. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

DIVIDEND POLICY

Our board of directors is responsible for submitting proposals in respect of dividend payments to our shareholders' general meeting for approval. The determination of whether to pay a dividend and in which amount is based on our results of operations, cash flow, financial condition, capital adequacy ratios, future business prospects, statutory and regulatory restrictions and other factors that our board of directors deems relevant. Under the PRC Company Law and our Articles of Association, all of our shareholders holding the same class of shares have equal rights to dividends and other distributions proportionate to their shareholding. Under PRC law, we may only pay dividends out of our profit after tax. Profit after tax for a given year represents net profit as determined under PRC GAAP or IFRS or the accounting standards of the overseas jurisdiction where our shares are listed, whichever is lower, less:

- any of our accumulated losses in prior years;
- appropriations we are required to make to the statutory reserve, which is currently 10% of our net profit as determined under PRC GAAP, until such reserve reaches an amount equal to 50% of our registered capital;
- a general reserve we are required to set aside; and
- appropriations to a discretionary surplus reserve as approved by the shareholders at a general meeting.

According to the relevant MOF regulations, financial institution are generally required to maintain a general reserve at 1.5% of the balance of their risk-bearing assets prior to making a profit distribution. As of June 30, 2013, we set aside RMB3,063 million as general reserve.

Any distributable profits that are not distributed in a given year are retained and available for distribution in subsequent years. We generally do not distribute dividends in a year in which there is no profit available for distribution. The payment of any dividend by us must also be approved at a shareholders' general meeting. We are not allowed to distribute profits to our shareholders until we have made up our losses and made appropriations to our statutory and general reserves. Our shareholders are required to return any profit distributed in violation of the relevant regulations.

The CBRC has the discretionary authority to prohibit any bank that fails to meet the relevant capital adequacy ratio requirements, or has violated any other PRC banking regulations, from paying dividends or making other forms of distributions. As of June 30, 2013, we had a capital adequacy ratio of 11.90% and a core tier 1 capital adequacy ratio of 9.24%.

We declared cash dividends in the amount of RMB817 million, RMB817 million and RMB817 million in 2010, 2011 and 2012, respectively, representing RMB0.1, RMB0.1 and RMB0.1 per share before tax.

At a general meeting of our domestic shareholders on July 10, 2013, our domestic shareholders approved that the accumulated undistributed profits prior to the Global Offering shall be attributable to both our domestic shareholders and holders of H Shares after the Global Offering.

LISTING EXPENSES

The estimated total listing expenses in relation to this Global Offering are approximately RMB210 million, of which approximately RMB201 million is directly attributable to the issue of new

Shares to the public and to be accounted for as a deduction from equity, and the remaining amount of approximately RMB9 million is expected to be charged to our statement of comprehensive income for the year ending December 31, 2013. Our Directors do not expect such expenses to materially impact our results of operations for the year ending December 31, 2013.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following is an illustrative statement of the unaudited pro forma adjusted consolidated net tangible assets which has been prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the effect of the Global Offering as if it had taken place on June 30, 2013 and based on the consolidated net tangible assets attributable to shareholders of the Bank as at June 30, 2013 as shown in the Accountant's Report, the text of which is set out in Appendix I to this prospectus, and adjusted as described below.

This unaudited pro forma adjusted consolidated net tangible assets has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Global Offering been completed as at June 30, 2013 or at any future date.

	Audited consolidated net tangible assets attributable to shareholders of the Bank as at June 30, 2013[1]	Estimated net proceeds from the Global Offering[2]	Unaudited pro forma adjusted consolidated net tangible assets attributable to shareholders of the Bank	Unaudited pro forma adjusted consolidated net tangible assets per share	
	(in thousands of RMB)			(RMB)[3]	(HK$)[5]
Based on the Offer Price of HK$3.47 per Share	22,071,895	6,618,006	28,689,901	2.69	3.42
Based on the Offer Price of HK$3.88 per Share	22,071,895	7,407,643	29,479,538	2.76	3.51

Notes:

(1) The audited consolidated net tangible assets attributable to shareholders of the Bank as at June 30, 2013 is extracted from the Accountant's Report set forth in Appendix I to this prospectus, which is based on the audited consolidated net assets attributable to shareholders of the Bank as at June 30, 2013 of RMB 22,139,071,000 with an adjustment for the intangible assets as at June 30, 2013 of RMB 67,176,000.

(2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK$3.47 and HK$3.88 per Share, being the lower end to higher end of the stated offer price range, respectively, after deduction of the underwriting fees and other related expenses payable by the Bank, and do not take into account of any Shares that may be issued pursuant to the Over-Allotment Option.

(3) The unaudited pro forma adjusted consolidated net tangible assets per Share are determined after the adjustments as described in note 2 above and on the basis that 10,674,819,283 Shares are in issue, assuming the Global Offering had been completed on June 30, 2013 but takes no account of any shares which may fall to be issued upon the exercise of the Over-Allotment Option.

(4) No adjustments have been made to the unaudited pro forma adjusted consolidated net tangible assets to reflect any trading results or other transactions of the Group entered into subsequent to June 30, 2013.

(5) The translation of Renminbi into Hong Kong dollars is made at a rate of RMB1.00 to HK$1.272. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

NO MATERIAL ADVERSE CHANGE

Our directors confirm that there has been no material adverse change in our financial or trading position since June 30, 2013.

WORKING CAPITAL

Rule 8.21A(1) and Paragraph 36 of Part A of Appendix 1A of the Listing Rules require this prospectus to include a statement by our directors that, in their opinion, the working capital available to our bank is sufficient or, if not, how it is proposed to provide the additional working capital our directors consider to be necessary. We are of the view that the traditional concept of "working capital" does not apply to banking businesses such as ours. We are regulated in China by, among others, the PBOC and the CBRC. These regulatory authorities impose minimum capital adequacy and liquidity requirements on commercial banks operating in China. Rule 8.21A (2) of the Listing Rules provides that such a working capital statement will not be required to be made by an issuer whose business is entirely or substantially that of the provision of financial services, provided that the Hong Kong Stock Exchange is satisfied that the inclusion of such a statement would not provide significant information for investors and that the issuer's solvency and capital adequacy are subject to prudential supervision by another regulatory body. In view of the above, pursuant to Rule 8.21A (2) of the Listing Rules, we are not required to include a working capital statement from our directors in this prospectus.