

OVERVIEW

We are a National Joint Stock Commercial Bank committed to establishing ourselves as one of the most innovative commercial banks in China. To adapt to changing market trends and the development of the macro economy and the banking sector in the PRC, we will continue to intensify our business transformation efforts, diligently develop our capital-efficient operations, build a diversified financial services platform, support the development of the real economy and promote technological innovation. We believe that these core initiatives will facilitate the healthy and rapid growth of our business.

In recent years, our business scale and customer base have continued to expand rapidly. As of September 30, 2013, our assets, deposits and loans amounted to RMB2,474.3 billion, RMB1,622.1 billion and RMB1,139.4 billion, respectively. Our net profit increased by 13.9% to RMB21.70 billion for the nine months ended September 30, 2013 from RMB19.06 billion for the nine months ended September 30, 2012. From 2010 to 2012, our total assets, total loans and advances to customers, total deposits from customers and net profit grew at a CAGR of 23.9%, 14.6%, 15.9% and 35.9%, respectively. On August 18, 2010, we successfully listed our A Shares on the Shanghai Stock Exchange.

Since commencing operations on August 18, 1992, we have provided comprehensive and competitive financial products and services to a wide range of customers, including retail customers, corporate customers, government agencies and financial institutions, and have conducted a proprietary trading business and other trading operations for our clients.

- **Retail Banking:**

We have a fast-growing and high-quality retail banking platform, focusing on mid- to high-end customers. We had approximately 44 million retail banking customers as of June 30, 2013. As of the same date, our number of micro-enterprise customers reached approximately 750,000. We operate our business under a “comprehensive retail banking” model and strive to maintain steady growth through our wealth management business, micro-enterprise business and credit card business. In 2012, we also successfully elevated our electronic banking business to a front-office function with the objective of establishing “Everbright Bank Online” and focused on developing internet banking and mobile finance.

- **Corporate Banking:**

Our strong corporate banking operations have a high-quality customer base. As of June 30, 2013, we had approximately 450,000 corporate customers, covering approximately 90% of the state-owned enterprises under the direct administration of the SASAC. Meanwhile, through our model-based operations, we achieved fast and healthy development of our SME business. The number of our SME customers that undertook credit transactions with us was approximately 21,000 as of June 30, 2013, representing an increase of approximately 10,000 customers from as of December 31, 2010. Our SME loan balances increased by a CAGR of 38.2% from as of December 31, 2010 to as of December 31, 2012.

- **Treasury Operations:**

We have achieved strong results in a number of areas, including domestic inter-bank bond market trading, money market trading, foreign exchange market making, derivative product innovation and agency treasury business. In 2012 and in the six months ended June 30, 2013, we settled approximately RMB10.6 trillion and RMB6.9 trillion of inter-bank market bonds, respectively. We ranked first among National Joint Stock Commercial Banks in this respect in both periods.

BUSINESS

Our Head Office is located in Beijing and we have a nationwide branch network. We strategically emphasize China's more economically developed regions, such as the Bohai Rim, the Yangtze River Delta and the Pearl River Delta. As of June 30, 2013, we had a total of 807 branch outlets, including our Head Office, 37 tier-one branches, 42 tier-two branches and 727 network outlets (including one Hong Kong branch). We also had a total of 1,156 self-service banking centers, 3,821 ATMs and 2,060 CRSs as of the same date.

OUR COMPETITIVE STRENGTHS

Successful business transformation by focusing on capital efficiency to adapt to the interest rate liberalization in China

Business transformation and strengthened capital management.

We focus on capital management in our business operations, promote economic capital metrics such as EVA as key performance indicators and have transformed our performance evaluation system by adopting a system that evaluates operational performance on a risk adjusted basis as opposed to a financial indicators basis.

We have established a capital-efficient business model focusing on SMEs and micro-enterprises, electronic banking and wealth management businesses. At the same time, we strive to provide comprehensive financial services to our customers, which further enhances our net fee and commission income. Our net fee and commission income grew by 48.8% from the six months ended June 30, 2012 to the six months ended June 30, 2013 and at a CAGR of 41.9% from 2010 to 2012. Its contribution to our operating income increased from 13.2% in 2010 to 15.8% in 2012 and further to 21.7% for the six months ended June 30, 2013.

We successfully captured market opportunities and achieved rapid growth in the inter-bank and trading businesses. As of December 31, 2012, total assets for our inter-bank and trading businesses amounted to RMB952.4 billion, representing a year-on-year growth of 57.8%, while net revenue from our inter-bank and trading businesses in 2012 grew to RMB11.0 billion, representing an increase of 59.2% from 2011. As of June 30, 2013, total assets for our inter-bank and trading business amounted to RMB1,035.8 billion.

Optimized credit structure and enhanced profitability.

Our overall credit structure improved substantially with balances of retail loans and SME loans as a percentage of total loans increasing from 24.9%¹ and 14.4%, respectively, as of December 31, 2010, to 32.7%¹ and 20.9%, respectively, as of June 30, 2013. Meanwhile, large corporate loans² as a percentage of total loans decreased from 58.9% to 45.3% during the same period. As a result, our capital efficiency and profitability increased significantly. As of June 30, 2013, the aggregate balance of SME loans and micro-enterprise personal loans over which we have pricing power amounted to RMB364.3 billion, accounting for 33.0% of our total loans (as compared to 31.5% of our total loans as of December 31, 2012 and 25.7% of our total loans as of December 31, 2011, respectively). The average yield of our total loans increased by 163 basis points from 5.03% in 2010 to 6.66% in 2012, and decreased to 6.19% for the six months ended June 30, 2013, which was a smaller decline than industry peers during the same period.

¹ Excluding fixed-mortgages.

² Excluding discounted bills and loans to SMEs.

BUSINESS

Our operational efficiency also increased continuously and our cost-to-income ratio³ decreased from 35.5% in 2010 to 30.2% in 2012 and further to 27.9% for the six months ended June 30, 2013, among the lowest in the industry. Our return on average total assets⁴ increased by 23 basis points from 0.95% in 2010 to 1.18% in 2012, and further increased by 8 basis points to 1.26% for the six months ended June 30, 2013. Our return on risk-weighted assets⁵ increased by 35 basis points from 1.36% in 2010 to 1.71% in 2012, and further increased by 14 basis points to 1.85% for the six months ended June 30, 2013.

Rapid and healthy growth in our retail banking business leading to enhanced revenue contribution and elevated market position

Rapid growth led to a significant increase in retail banking contribution.

By implementing a differentiated “comprehensive retail banking” strategy, we have established our wealth management, micro-enterprise financial services and credit card businesses as key growth drivers. We target mid- to high-end customers and are committed to providing comprehensive financial services through (i) promoting cross-selling among various business lines and (ii) effectively leveraging our products, brands and channel resources. As a result of our retail business strategy, our retail loans and retail deposits (including retail structured deposits and retail pledged deposits) grew rapidly at a CAGR of 26.8% and 37.4%, respectively, from 2010 to 2012. Our retail loans and retail deposits (including retail structured deposits and retail pledged deposits) further increased by 16.0% and 16.0%, respectively, from as of December 31, 2012 to as of June 30, 2013. At the same time, our retail banking operating income and net fee and commission income also grew at a rapid rate, representing a CAGR of 39.6% and 59.5%, respectively, from 2010 to 2012.

The contribution of our retail banking business to our total business continually increased from 2010 to 2012. Our retail loans and retail deposits (including retail structured deposits and retail pledged deposits) as a percentage of total loans and total deposits increased from 24.9%⁶ and 15.7%, respectively, as of December 31, 2010, to 32.7%⁶ and 23.4%, respectively, as of June 30, 2013. Newly granted retail loans accounted for 59.5% and 61.2% of total new loans in 2012 and in the six months ended June 30, 2013, respectively. Our retail banking operating income and net fee and commission income as a percentage of our total operating income and net fee and commission income grew from 23.0% and 45.2%, respectively, in 2010, to 29.2% and 62.8%, respectively, in the six months ended June 30, 2013.

Our wealth management business achieved rapid growth through enhanced product and service offerings and channel breakthroughs.

The “Sunshine Wealth Management” brand is one of the longest-standing and most influential wealth management brands in the banking industry in China. Through the establishment of the Sunshine Wealth Management platform, we were able to transform the traditional single product/single channel model to a multi-product/multi-channel model and provide our customers with professional and comprehensive wealth management solutions. As of December 31, 2012, the number of Sunshine Wealth Management customers reached approximately 1.0 million, growing at a CAGR of 30.0% from 2010 to 2012, and further increased to approximately 1.3 million as of June 30, 2013. Our total retail AUM contributed by mid- to high-end customers with an AUM amount of more than RMB500,000 grew from 52.4% in 2010 to 65.5% as of June 30, 2013. As of December 31, 2012, the number of our high net-worth customers reached approximately 13,000, representing a year-on-year growth of 82.6% from December 31, 2011, and further increased to approximately 18,000 as of June 30, 2013.

³ Excluding business tax and surcharges.

⁴ Calculated on an annualized basis.

⁵ Calculated by dividing the net profit by the balance of risk-weighted assets on an annualized basis.

⁶ Excluding fixed-mortgages.

BUSINESS

We achieved a breakthrough in our sales channels by expanding our wealth management business through branch outlets, online banking and third party distributions. As securities companies were permitted to engage in agency sales in November 2012, we became one of the first commercial banks to have established distribution cooperation relationships with various large securities companies in the PRC.

Furthermore, our wealth management business has received various recognitions and awards, such as “2012 Best Wealth Management Brand for Banks in China”, “2012 Top 10 Wealth Management Products of Banks in China”, “Outstanding Wealth Management Team Award” and “2011 Most Trustworthy Client Wealth Management Brand Award”.

Our micro-enterprise business achieved rapid growth.

As of June 30, 2013, our balance of micro-enterprise personal loans (including loans to micro-enterprise and individual industrial and commercial entities) amounted to approximately RMB133.3 billion and accounted for 36.9% of our total retail loans. As of the same date, the number of our micro-enterprise customers reached approximately 750,000.

In addition, by establishing a professional team to serve micro-enterprises, we actively attracted new customers from potential industry segments and from upstream and downstream along the supply chain to improve loan yield. During the six months ended June 30, 2013, the average term of our micro-enterprise personal loans was 2.49 years, and the average pricing premium to benchmark rate reached approximately 30.7%. During the same period, the interest rate for newly granted loans to micro-enterprises reached 7.84%, which was higher than the overall retail loan average yield of 6.01%.

Our credit card business has become one of the market leaders in the PRC through focusing on high-end customers and continuous innovation.

Our credit card business grew rapidly as a result of effective marketing and continuous innovation. Our credit card transaction volume for the six months ended June 30, 2013 amounted to RMB257.3 billion and the overdraft balance as of June 30, 2013 reached RMB89.5 billion. In 2012, our credit card transaction volume amounted to RMB306.7 billion and the overdraft balance at the end of the year reached RMB69.6 billion, which represented a CAGR of 99.9% and 131.4% from 2010 to 2012, respectively. As of June 30, 2013, we had issued approximately 16.3 million credit cards in aggregate. The contribution of mid- to high-end customers holding Titanium Cards and other VIP cards to the total credit card transactions volume increased from 34.7% as of December 31, 2010 to 66.1% as of June 30, 2013.

Supported by our advanced IT platform, we have issued more than one hundred different customized credit card products, which have been well received by customers. For example, we launched the “Lehuijin” (樂惠金) card product with a focus on consumer finance. This product satisfies customer demands for short-term, revolving credit with higher credit limits. At the same time, this product has effectively increased our operating income, as the “Lehuijin” (樂惠金) card accrues interests on a daily basis. Another example is the combined debit and credit card, which we believe we were the first in the industry to launch and which combines a debit account with a credit account by utilizing advanced real-time interaction technology.

Through adopting efficient management plans, we have improved service efficiency, further streamlined the operational processes of our credit card business and enhanced our management quality at various stages. Furthermore, the outsourcing of our standardized businesses has effectively reduced our operating costs. We also adopted a refined marketing strategy based on customer segmentation which enabled us to achieve a sound cost-to-income ratio for our credit card business in 2012.

BUSINESS

Additionally, we believe our Credit Card Center was one of the first credit card centers for a domestic bank to be approved by the CBRC and to receive both the ISO27001 information security management system certification and ISO9001 quality management system certification. Such recognition demonstrates our industry-leading position.

Committed to serving the real economy, focusing on deepening SME services and customer penetration

Our fast-growing SME business has become a key profit driver.

The number of our SME customers that undertook credit transactions with us experienced rapid growth and was approximately 21,000 as of June 30, 2013, representing an increase of approximately 10,000 customers from December 31, 2010. Our total number of small business customers achieved 74.8% year-on-year growth in 2012 and reached approximately 9,700 as of June 30, 2013, representing an increase of approximately 3,900 customers from June 30, 2012.

Our business structure was improved through the development of our SME business. Our SME loan balances reached RMB231.0 billion as of June 30, 2013, and the proportion of SME loans to our total corporate loans rose from 19.6% as of December 31, 2010 to 31.6% as of June 30, 2013. Small enterprise loan balances grew by 188.5% from as of December 31, 2011 to as of June 30, 2013. These increases raised our overall corporate loan yield from 5.09% in 2010 to 6.27% for the six months ended June 30, 2013. Our average lending rate on SME loans achieved a 17.0% premium and our average lending rate on small enterprise loans achieved a 22.6% premium over the benchmark rate for the six months ended June 30, 2013, respectively.

Persistence in our model-based operations promotes the specialization and operational efficiency of our SME business.

Our model-based operations provide customized financing solutions to satisfy industry-specific demands and diversified customer needs. These financing solutions could be efficiently replicated and applied to customers in the same industry or with similar demands. Through our “Sunshine Value Plan” (陽光創值計劃), we have successfully launched more than ten models, including among others, the joint guarantee model, bank guarantee lease model, distributor model and e-commerce model. These models were used by approximately 9,000 SME customers as of June 30, 2013, which represented 43.3% of our total SME customers and an increase of 54.5% from December 31, 2012. The amount of credit extended under the model-based operations reached RMB151.5 billion as of June 30, 2013, representing an increase of 40.4% as of December 31, 2012, which in turn represented a year-on-year increase of 51.4% as of December 31, 2011. Further, we launched the “Thousands of Customers Growth Plan” (千戶成長計劃) to cultivate high-quality enterprise customers with high-growth potential and provide small enterprise customers with multi-market, multi-product financing solutions, ranging from settlement services to financing products, from indirect finance to direct finance, and from monetary markets to capital markets, to meet their needs as they progress through their successive stages of business development.

Leveraging the risk mitigation function of our model-based operations, our SME business has adopted on-site inspections and customized assessments to effectively reduce our risk exposure. The NPL ratio for our SME business was 1.85% as of June 30, 2013.

We have explored channels to engage high-end SME customers. We are developing a comprehensive financing service platform with industry associations, government authorities, insurers, asset management companies, guarantee companies and other institutions.

Enhancing our services to strategic emerging industries in the PRC to maintain our sustainable growth.

We strongly encourage the development of “green financing”. Embracing the trend of developing an energy efficient economy, we launched a low-carbon finance service package, “Guang He Dong Li” (光合動力), to meet the needs of enterprises seeking financing for their low-carbon projects. As of June 30, 2013, we had provided a total of approximately RMB5.7 billion to finance “green” projects by SMEs. Our “Guang He Dong Li” (光合動力) low-carbon financial product has won many awards.

We place strong focus on financing for high-tech companies. We provide strong financial support to enterprises in strategic emerging industries of the PRC that possess core technology and strong research and development capabilities. As of June 30, 2013, we had provided approximately RMB42.6 billion of financing to high-tech SMEs.

We actively support government procurement financing. We launched “Government Procurement Financing Loans” (政採融易貸), a financial product offered to SME suppliers whose target customers are government agencies. As a pioneer in providing government procurement financing in the PRC, our government procurement financing service extended to 16 provinces in the PRC as of June 30, 2013.

Well positioned to meet diversified financing needs while expanding our financial market businesses

Investment banking

Our investment banking business has achieved a market leading position. For the six months ended June 30, 2013, the amount of debt financing instruments (including short-term financing, medium-term notes, extra short-term notes, private placement notes and asset backed notes) underwritten by our investment banking business was approximately RMB110.1 billion, representing a year-on-year growth of 38.4% and a market share of approximately 7.1%. We were ranked in the top three among the National Joint Stock Commercial Banks for the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, respectively.

Asset management

Through shifting from wealth management to asset management, we have created a leading technology platform for both customer services and investment portfolio management. By strengthening our ability to manage customer investment portfolios, we offered detailed accounting and full risk disclosure and improved the quality of our wealth management services. Through improving our investment research efforts, establishing professional teams and integrating and optimizing our product offerings and service capabilities, we increased our income from our wealth management business. The balance of the assets under management increased from RMB199.6 billion as of December 31, 2010 to RMB308.4 billion as of December 31, 2012, representing a CAGR of 24.3%. The balance of the assets under management further increased to RMB457.9 billion as of June 30, 2013. Moreover, wealth management service fees amounted to RMB1,174 million for the six months ended June 30, 2013, achieving 126.2% year-on-year growth and accounting for 15.3% of our total fee and commission income.

Custodian business

Assets under custody rose rapidly from RMB276.5 billion as of December 31, 2010 to RMB1,410.9 billion as of June 30, 2013. In 2012, income from our custody and other fiduciary business fees amounted to RMB558 million with a CAGR of 70.0% from 2010 to 2012. In 2012, we launched our “Full Link Equity Services” (股權服務全程通), which we believe was the first of its kind in the industry. It provides integrated financial services to non-listed enterprises on a customized basis on three levels, namely equity financing, equity transfer and equity custody, and promotes multi-level services for capital market transactions.

Inter-bank business

Our inter-bank business has become a new growth driver. As one of our capital-efficient operations, our inter-bank business achieved healthy growth. Sales from our agency trust products and agency securities products (including asset management plans) achieved an outstanding performance, with certain product sales dominating top positions in the market. In addition, our inter-bank business operates under a centralized management platform and adopts a flexible market-based pricing method.

Our strong relationship with China Everbright (Group)

By leveraging our strong relationship with China Everbright (Group), we have developed a cross-market and cross-sector integrated financial services platform. Through strengthening synergies with China Everbright (Group) and its subsidiaries in compliance with relevant regulatory policies, and through cross-selling and resource sharing (including channels and technology), we provide a full range of one-stop integrated financial services to our customers.

Advanced IT platform and industry-leading E-banking innovation

Successfully elevated our electronic banking business to a front-office function.

In line with the trend which features virtualized customers, electronic accounts and online transactions, we focused on developing internet banking, mobile finance and self-service banking. Through establishing 15 “Sunshine E-series” (陽光 e系列) platforms and promoting five internet banking portals, such as those at Taobao.com and Sohu.com, we have (i) created an integrated wealth management platform through websites, online banking, mobile phones and network messaging; (ii) increased the effectiveness of our product sales through electronic channels; and (iii) achieved a remarkable growth in our income. At the same time, we have accelerated the expansion of our online banking functions to cover mobile banking and have achieved a convergence rate of personal online banking and mobile banking functions in excess of 60%. In addition, we strengthened the development of our electronic channels, promoted eight major electronic channels (i.e. multi-function homepage, internet banking, short message service banking, ATM, telephone banking, credit card platform, PAD card issuing device and back office approval), enhanced our synergy with physical outlets and achieved rapid growth of our customer base.

Furthermore, we successfully elevated our electronic banking business into a front-office function, completed the construction of bank-wide business lines and established the principle of “industry leading technology, innovative services and efficiency first”. We have also implemented a customer-focused principle, intensified our service innovation efforts and actively explored innovative models for product sales, payments and settlements. In particular, we have significantly enhanced our sales ability through wealth management channels such as the “Wealth Management Night Market/Morning Market” (理財夜市/早市).

Our electronic banking achieved healthy and rapid growth.

As of June 30, 2013, the number of our retail internet banking and mobile banking customers was approximately 8.8 million and 5.3 million, respectively, representing an increase of 81.7% and 277.8%, respectively, as compared to June 30, 2012. The bank counter-replacement ratio¹ in respect of our retail electronic banking channels rose from 73.8% in 2010 to 86.3% in 2012 and further to 89.0% for the six months ended June 30, 2013. The bank counter-replacement ratio in respect of our corporate electronic banking channels rose from 24.0% in 2010 to 39.0% in 2012 and further to 68.8% for the six months ended June 30, 2013.

¹ Calculated as electronic banking transaction-volume divided by the sum of electronic-banking transaction volume and counter transaction volume.

BUSINESS

Within fourteen months of its launch (in April 2012), our “Wealth Management Night Market” (理財夜市) products exceeded RMB118 billion in sales, brought in more than 15,500 new accounts, and achieved a stable daily deposit amount of RMB34.4 billion. We also achieved a breakthrough in sales for our “Wealth Management Morning Market” (理財早市) products. Within nine months of its launch (in September 2012), its sales exceeded RMB34.0 billion.

For the six months ended June 30, 2013, revenue contributed by electronic banking channels amounted to RMB950 million. Fee income from electronic payments for the six months ended June 30, 2013 was approximately RMB48.6 million, with the transaction value amounting to approximately RMB22.9 billion. As of June 30, 2013, we had more than 268 electronic payment merchants, 72 of which are third party payment service providers. We have also entered into strategic cooperation agreements with Alipay, Suning and various other leading industry players.

Furthermore, our electronic banking business has grown rapidly and has been highly recognized by various organizations and the media. We won many industry awards throughout 2012, including “Best Electronic Bank” (最佳電子銀行) awarded by *China’s Financial News* and the “2012 Electronic Banking Service Award” (2012年度電子銀行服務獎) from the *21st Century Business Herald*.

Prudent and comprehensive risk management and dedication to enhancing our risk control capabilities

Building a comprehensive and effective risk management system.

We proactively implement comprehensive and effective risk management systems. In November 2011, we submitted a formal application to the CBRC to implement the New Basel Capital Accord. We also established a comprehensive risk management system covering various respects of our businesses, widely adopted an internal ratings system with a high sensitivity, improved our risk assessment and risk-adjusted pricing ability and effectively supported our capital-efficient operations.

We fully implemented an independent and professional risk management organization structure. We assigned chief risk officers and/or risk management teams to key business lines and strengthened our risk management and control efforts in our major business areas. We also assigned chief risk officers to tier-one and tier-two branch outlets in order to ensure that we achieve effective risk management over such outlets. As a result, we improved the professional standards and independence of our risk management team and aligned our risk management practices more closely with the market.

Effective risk management and optimized credit structure for bank-wide risk control.

The continued improvement of our risk management capability has helped us to effectively handle the challenges brought on by the recent economic downturn and manage our overall risks. As of June 30, 2013, our NPL ratio was 0.80%. While our retail banking business experienced strong growth, the quality of our assets remained sound, as the NPL ratio of our retail loans was 0.30% as of June 30, 2013. The NPL ratios in respect of real estate loans and LGFV loans as of June 30, 2013 were significantly lower than our overall NPL ratio. In addition, LGFV loans as a percentage of total loans further decreased as of June 30, 2013.

We implemented a comprehensive risk management program on off-balance sheet businesses and effectively capped the growth of such businesses through risk quota management and economic capital evaluation. We incorporated our off-balance sheet businesses into our integrated credit management system and centralized our credit risk management in accordance with standard credit policies. By imposing strict restrictions on loan extensions and by strictly managing loan approvals, we emphasize on preventing our exposure to risks, such as those associated with LGFVs and real estate loans, from impacting our off-balance sheet businesses.

We proactively limited our total amount of real estate credit lending while adjusting our real estate loan structure based on government urbanization strategies. We limited the extension of credit lines to commercial real estate projects located in tier-two and tier-three cities. Our micro-enterprise credit business also prudently expanded in consumer spending related industries and limited lending to speculative ventures.

We executed prudent provisioning policies.

In order to face the challenges resulting from our risks, we continue to emphasize our prudent provisioning policies. As of June 30, 2013, our provision coverage ratio was 292.83% and our loan loss allowance to total loans ratio amounted to 2.34%.

Experienced and visionary management and high-quality employees

Our senior management team has extensive experience in the banking and financial industry in China. The key members of our senior management have, on average, approximately 20 years of management experience related to the financial industry. Our Chairman and President have served in various major leadership positions in the financial industry. Our senior management led the implementation of our business transformation and the optimization of our organization and achieved remarkable results in 2012.

We have a team of high-quality employees. As of June 30, 2013, approximately 11% of our employees have obtained postgraduate degrees or above and approximately 64% of our employees are degree holders. We had 2,007 employees qualified as associate financial planners (AFP), 269 employees qualified as certified financial planners (CFP) and 29 employees qualified as chartered financial analysts (CFA). Our experienced management and high-quality employees will continue to contribute significantly to the development of our business and to lay a solid foundation for our future growth.

OUR STRATEGIES

Our strategic vision is to establish ourselves as the most innovative bank in China. In response to recent developments in the macro-economy and banking industry in China, such as interest rate liberalization, financial disintermediation and intensified competition, we will continue to adopt innovation as our long-term strategy to build up our competitive advantages. Innovation, quality of service, technology and talent are the four key drivers of our business transformation which will allow us to achieve sustainable growth.

Accelerate our Strategic Transformation

To accelerate our strategic transformation, we intend to adopt the following initiatives:

Enhance our capabilities for providing comprehensive financial services to our large corporate customers.

Adapting to the industry trends of interest rate liberalization and financial disintermediation, we will continue to provide innovative products and services to satisfy the diversified financial needs of our customers by creating a comprehensive financial services platform. We will enhance internal cooperation among our corporate banking, investment banking, treasury, custodian and other business lines to provide comprehensive financial services for our large corporate customers. Additionally, we will actively promote supply-chain financing and strive to maintain our leading market share in the debt securities underwriting market in China. We will continue to increase our synergy with China Everbright (Group) and its subsidiaries, including in the areas of leasing, securities and insurance, develop and maintain customer resources, promote cross-selling and increase our ability to provide comprehensive financial services as well as our overall competitiveness.

BUSINESS

Develop our SME and micro-enterprise financial services.

We will continue to promote innovation in our business model, services and product offerings in order to accelerate the development of our SME and micro-enterprise businesses. Our long-term goal is to optimize our overall customer structure and expand our core customer base among SMEs and micro-enterprises. We will target less cyclical industries, such as staple goods, and expand our settlement business, in order to strengthen our deposit base and increase the proportion of our SME and micro-enterprise businesses to our overall business.

- We will adhere to our model-based operations and enhance our professional service standard. We will continue to accelerate the development of business models to expand our customer base and improve our service capabilities.
- We will strengthen our IT support system for the development of our SME and micro-enterprise businesses, establish a comprehensive electronic credit approval system and refine our risk-adjusted pricing system to improve our overall profitability.
- We will continue to refine our policies, allocate resources and further develop a professional team to serve the specific requirements of our SME and micro-enterprise customers. We will intensify and target our efforts to enhance our small enterprise business by focusing on strategic needs for key customers. We will also further innovate our models for our medium-size enterprise customers.
- We will further improve our financial services for our micro-enterprise customers through internal cooperation between our corporate and retail banking businesses, streamlined operational procedures, a refined evaluation system and consolidated bank-wide platforms. We will also promote our financial services for our micro-enterprises customers through our electronic network to enhance our efficiency while meeting our risk management requirements.

Develop and improve our trading, agency and wealth management service businesses.

In response to market demand, we will adapt our business lines in a comprehensive and diversified manner, including developing and improving our trading, agency and wealth management services. As a result, we expect to increase the revenue contribution of these business lines. We will also develop our money market, agency business, precious metal agency service and other innovative business lines, while maintaining our market-leading position in debt securities investment. Through resource integration, product innovation, channel expansion, customer service and risk control improvement and the establishment of an integrated financial services platform, we will be able to further solidify our brand and influence in the interbank market.

Through product innovation and improvements in research capabilities, we will continue to strengthen our “Sunshine Wealth Management” brand and increase its contribution to our overall profits. We will also continue to improve our wealth management business operations, IT platforms, organizational structure and incentives in accordance with our plans to transform our wealth management business into an asset management business.

Strive to develop our electronic banking business.

We plan to continue to develop the “Everbright Bank Online” project to integrate our electronic banking channels with our physical branch outlets. We also plan to combine physical outlets, electronic channels and customer relationship managers to consolidate our sales advantages and product resources and continuously advance our electronic banking business to secure a leading position.

BUSINESS

To achieve the above goals, we will:

- promote the development of our Online Business Hall and Sunshine E-series business platforms;
- promote the development of our mobile finance infrastructure and gradually implement a new service model integrating mobile banking, short message service (SMS) banking and mobile payment;
- continue to develop (i) the largest payment platform in terms of transaction size among National Joint Stock Commercial Banks, (ii) a financial services platform with the largest number of application channels for micro-enterprises and (iii) an open platform offering a large variety of financial products; and
- further intensify our efforts to attract electronic banking customers in order to expand our customer base and secure our market-leading position among our peers.

Strengthen and optimize our physical network.

We will steadily increase the total number of outlets, continue to optimize our coverage within China and improve our network operation efficiency.

Our network expansion plan will primarily include: 1) vigorously developing tier-two branches and sub-branches in China's main tier-two cities where we do not have coverage; 2) moderately increasing penetration in existing covered regions; and 3) establishing more self-service banking centers, community branches and specialized branches.

We will integrate the services and marketing capability of our various channels to achieve synergies and economies of scale. By further integrating physical outlets and electronic channels, we will establish a more customer-centric service platform, comprised of tier-one and tier-two branches, self-service banking centers, community branches, specialized branches and electronic banking.

Achieve Sustainable Development

We will strengthen our existing advantages in our core banking business, enhance our capital planning and management, achieve prudent risk controls and foster a flourishing corporate culture in order to achieve sustainable growth.

To achieve sustainable development, we intend to adopt the following initiatives:

Strengthen advantages in our core banking business.

- Strengthen business development in our corporate banking business.

We will continue to promote our corporate banking operations. We intend to deepen the application of our model-based operations, focus on key industries and core companies and expand both upstream and downstream along the supply chain to effectively mitigate our credit risks. We will also endeavour to increase our overall revenue and promote the expansion of our SME and micro-enterprise customer base. Furthermore, we will actively promote growth in our corporate customer base by developing our supply chain financing business, including creating and improving relevant financial products, trade finance products, cash management products and account settlement products.

BUSINESS

- Actively develop our retail banking business.

We plan to further develop our retail banking business by focusing on financial services for micro-enterprises and wealth management for retail customers, supplemented by account settlement tools, cross-sales and the establishment of a centralized, comprehensive service system for mid- to high-end retail customers. We will continuously and progressively develop our retail banking business through the utilization of our large, organized pool of customer resources and establish retail banking as a cornerstone for our continued and steady growth.

With respect to our credit card business, we will build our services based on the principles of “safety, convenience, and Do It Yourself” (安全,快捷,DIY) and “high-end, high-value, and high-growth” (高端,高價值,高成長) in customer development. We plan to strengthen our credit card business and steadily increase its contributions to the profitability of our retail banking business and our Bank as a whole.

- Continue to solidify our liability business.

We will actively develop products to attract deposits and funds, enter into large projects and optimize our liabilities structure by strengthening our core deposits business, thereby improving the stability of our liability business.

Enhance capital planning and management.

We will uphold and enhance capital planning and management by adhering to three principles: (i) effective capital deployment, (ii) prudent use of capital and (iii) maximization of risk-adjusted returns. In addition, we will formulate mandatory plans for replenishing operating capital and set up effective capital replenishment channels. Through these plans, we will be able to optimize our capital replenishment model and broaden our sources of capital so as to maintain organic capital growth.

- We will further improve our organizational structure for capital management and continue to integrate our capital management processes. We will also develop and promote the integrated application of economic capital and technology in capital management, thereby improving the management of economic and regulatory capital in a centralized manner. Through strengthening our overall coordination in capital and resource allocation, we will be able to promote seamless integration between capital management and comprehensive risk management.
- In order to strengthen the implementation of our capital management objectives, we intend to develop and apply three core tools: (i) a capital allocation system based on return on economic capital, (ii) a risk-based pricing mechanism focusing on risk-adjusted revenue and (iii) a performance assessment system based on RAROC/EVA of economic capital.
- We will emphasize organic capital replenishment to support sustainable growth and development. We will also set up a multi-channel external capital replenishment mechanism to progressively optimize our capital management tools and ensure our financial efficiency and stability. We aim to maintain sufficient capital in order to ensure that our total capital and core capital can meet regulatory requirements and our business lines can achieve sustainable development.

Achieve prudent risk controls.

We are committed to maintaining a comprehensive risk management system that enhances our overall strategy and long-term strategic position and addresses various quantifiable risks, including credit risk, market risk, operational risk, liquidity risk, strategic risk and reputation risk. We plan to:

- take proactive measures to adapt to global economic and financial developments and strengthen our comprehensive risk management capabilities to mitigate systematic and regional risks;
- improve our credit risk management system and structure, deepen our model-based operations, enhance our portfolio management and strengthen risk management in key business areas to manage our risks. We also maintain prudent provision policies to respond to the dynamic operating environment;
- proactively respond to the consequences of interest-rate liberalization and exchange rate policy reform in China, strengthen our banking book and trading book interest risk management system and enhance our market risk management capabilities;
- actively implement liquidity management strategies to maintain an appropriate level of liquidity throughout our operations;
- promote product innovation by following the principles of “risk control, cost consideration, increased transparency and sufficient risk compensation capability”. In accordance with our innovative business strategy, we will develop an innovative risk management system covering both on- and off-balance sheet assets, banking book and trading book; and
- widen the application of our risk management policies to cover comprehensive financial services, financial services for SMEs and micro-enterprises, as well as e-banking and other areas of our strategic focus.

Foster a flourishing corporate culture.

We believe that having a flourishing corporate culture is critical to ensure our sustainable and steady growth. To continue to foster a strong corporate culture, we will:

- cultivate a robust risk management culture. We balance risks against returns and establish a healthy risk management culture to ensure prudent growth;
- foster a culture that promotes innovation. Our growth has been fundamentally linked to our continued ability to innovate while controlling costs and employing prudent and comprehensive risk management processes. We continue to improve our performance appraisal and incentive systems that reward success, promote innovation and business development and manage risks associated with innovations;
- create a learning-oriented environment. We are committed to broadening the level of staff training and utilizing a modern learning platform. By cultivating highly-skilled individuals and providing our staff with continuous training, we aim to improve our adaptability to challenging market conditions;
- encourage employee morale. We seek to create a harmonious professional environment with growth opportunities and a culture that promotes teamwork and loyalty so as to align our employees’ interests with our long-term growth; and
- actively engage in social responsibility endeavors. We will strengthen our social responsibility awareness and continue to be active corporate citizens. We will further support the economic growth of under-developed regions and actively participate in social assistance programs, including supporting social projects such as “Water Cellar for Mothers” (母親水窖), and focus our efforts on the harmonious development of both our business and society.

BUSINESS

AWARDS, RECOGNITIONS AND HONORS

We, our Directors and senior management have received many awards, recognitions and honors for our outstanding business performance and management capabilities. The following table sets forth a number of the awards and honors that we have received.

Date	Award/Recognition/Honor	Event/Organization/Publication
Innovation		
January 2013	2012 The Bank with the Highest Potential Award (2012最具潛力銀行獎)	Influence China – 2012 Finance Ceremony of Tencent (影響中國2012年騰訊網金融盛典) held by Tencent
December 2012	2012 The Most Innovative Bank (2012年最具創新力銀行)	2012 Eastern Fortune Ranking (2012東方財富風雲榜) organized by Eastmoney.com
December 2012	2012 Micro-Financing Services Product Innovation Award (2012年度小微融資服務產品創新獎) for our Real Estate Mortgage Quick Loan (房抵快貸)	The Third Session of the Selection of the Golden Tripod Awards (金鼎獎) held by <i>National Business Daily</i> (《每日經濟新聞》)
December 2012	2012 Best Brand Innovation Award (最佳品牌創新獎)	2012 China First Financial Marketing Awards (2012第一財經中國營銷盛典年度營銷獎評選) published by <i>China's First Financial Daily</i> (《第一財經日報》)
October 2012	2012 The Best Financial Innovation Case of China (2012年度中國最佳金融創新案例) for our “Wealth Management Night Market/Morning Market” channels (理財夜市/早市)	Financial Innovation Summit Forum of China (中國金融創新高峰論壇) organized by <i>New Finance World</i> (《新金融世界》)
October 2012	2012 Innovative Banks Rankings – Best Electronic Bank (2012年度創新銀行榜 – 最佳電子銀行)	Chinese Banking Industry Summit Forum (中國銀行業高峰論壇) organized by <i>Global Entrepreneur</i> magazine (《環球企業家》)
February 2012	2011 Most Innovative Bank of the Year (2011年度最具創新力銀行)	The 2012 Golden Phoenix Finance Festival and the Awards Ceremony organized by Ifeng.com
December 2011	2011 Brand Innovation Award (2011年品牌創新獎)	“The 2011 Asian Banks Competitive Rankings Report” Release Ceremony held during the Sixth 21st Century Annual Finance Summit of Asia. The event was hosted by the <i>21st Century Business Herald</i> (《21世紀經濟報道》)

BUSINESS

Date	Award/Recognition/Honor	Event/Organization/Publication
December 2011	2011 Best Design & Innovation Team (2011年度最佳設計與創新團隊)	“The 2011 Chinese Retail Banking Summit” and “The 4th Award Ceremony for the Most Respected Chinese Banks and the Best Retail Banks” organized by <i>Moneyweek</i> magazine (《理財週報》)
February 2011	Most Innovative Bank Card of the Year (年度最具創新精神銀行卡) for our Sunshine combined debit and credit card (陽光存貸合一卡)	The 2010 Wealth Management Products Competition organized by <i>Money Weekly</i> (《理財週刊》)
January 2011	Outstanding Service Innovation Bank Award (卓越服務創新銀行獎)	The Wise 2010 Financial Wealth Management League Table published by <i>Wise Money</i> magazine (《卓越理財》)
January 2011	Custody Business Innovation Award (託管業務創新獎)	The 2010 Beijing Youth Financial Star Campaign held by the <i>Beijing Youth Daily</i> (《北京青年報》)
December 2010	The Most Innovative Bank of the Year (年度最佳創新銀行)	“The 2009-2010 Chinese Financial Institutions Golden Medal List – the Golden Dragon Prize” jointly organized by China’s <i>Financial News</i> (《金融時報》) and the Institute of Finance and Banking of the Chinese Academy of Social Sciences
December 2010	2010 Financial Innovation Award for Individuals (2010年度個人金融創新獎)	2010 Netease Golden Diamond Awards session organized by Netease
May 2010	2010 Most Innovative Investment Banking Business among Commercial Banks in China (2010年中國區最佳創新銀行投行)	The best PRC investment bank competition (banking category) organized by China’s <i>Securities Times</i> (《證券時報》)
January 2010	The Best Financial Marketing Innovation Award (最佳金融營銷創新獎)	The <i>Chinese Banker</i> magazine (《銀行家》)
Wealth Management		
January 2013	Outstanding Bank Innovative Wealth Management Team Award (卓越銀行創新理財團隊獎) for our retail banking department	The Wise 2012 Financial Wealth Management League Table published by <i>Wise Money</i> magazine (《卓越理財》)
January 2013	The Best RMB Wealth Management Product (最佳人民幣理財產品) for our “Xin Gu Tong” (新股通) product	The Fifth Session of the “Golden Wealth Management Awards” (金理財獎) Ceremony held by <i>Shanghai Securities News</i> (《上海證券報》)

BUSINESS

Date	Award/Recognition/Honor	Event/Organization/Publication
January 2013	2012 The Best Wealth Management Brand of China (2012年中國年度最佳理財品牌)	The Fifth Session of the “Golden Wealth Management Awards” (金理財獎) Ceremony held by <i>Shanghai Securities News</i> (《上海證券報》)
November 2012	2012 The Best Bank Brand for Wealth Management (2012中國最佳銀行財富管理品牌)	2012 Retail Banks Annual Conference of China organized by <i>Moneyweek magazine</i> (《理財週報》)
January 2012	Outstanding Brand Value Bank Award (卓越品牌價值銀行獎)	The Wise 2011 Financial Wealth Management League Table published by <i>Wise Money</i> magazine (《卓越理財》)
January 2012	Outstanding Financial Wealth Management Team Award (卓越金融理財團隊獎) for our wealth management centers	The Wise 2011 Financial Wealth Management League Table published by <i>Wise Money</i> magazine (《卓越理財》)
January 2012	Outstanding Financial Wealth Management Product Award (卓越金融理財產品獎) for our Sunshine Wealth Management products	The Wise 2011 Financial Wealth Management League Table published by <i>Wise Money</i> magazine (《卓越理財》)
January 2012	2011 Clients’ Most Trusted Wealth Management Brand Award (2011年度用戶最信賴銀行理財品牌獎)	The 2012 Bankers Annual Conference organized by Sohu.com
December 2011	2011 Best Wealth Management Brand for Banks (2011年中國最佳銀行財富管理品牌) for our “Everbright Wealth Management” (陽光財富) brand	“The 2011 Chinese Retail Banking Summit” and “The 4th Award Ceremony for the Most Respected Chinese Banks and the Best Retail Banks” organized by <i>Moneyweek magazine</i> (《理財週報》)
The first quarter of 2011	Outstanding Financial Wealth Management Product Award (卓越金融理財產品獎) for our “Sunshine Wealth Management Current Pro (陽光理財活期寶)” product	The Wise Money 2010 Financial Wealth Management League Table published by <i>Wise Money</i> magazine (《卓越理財》)
The first quarter of 2011	2010 Bank with the Best Wealth Management Returns Award (2010最強實收益理財銀行獎)	Jin Chan Awards (金蟬獎) competition held by the <i>China Times</i> (《華夏時報》)
The first quarter of 2011	2010 Best Wealth Management Service Brand (2010年度最佳理財服務品牌)	<i>The Wealth Management Weekly</i> (《理財週刊》)

BUSINESS

Date	Award/Recognition/Honor	Event/Organization/Publication
SME and Micro-enterprise Services		
June 2013	2013 China Low-Carbon Model (2013中國低碳典範)	2013 China Low-Carbon Model Enterprise Summit and Award Ceremony organized by the <i>Economic Observer</i> (《經濟觀察報》) and the Economic Observer Institute (經濟觀察研究院)
December 2012	Social Responsibility Award (社會責任大獎) for our Government Procurement Financing Loans (政採融易貸)	2012 China Government Procurement Summit (中國政府採購高峰論壇 2012) organized by China Government Procurement Publishing (中國政府採購報社)
December 2012	2012 Micro-Financing Services Product Innovation Award (2012年度小微融資服務產品創新獎) for our Real Estate Mortgage Quick Loan (房抵快貸)	The Third Session of the Golden Tripod Awards (金鼎獎) held by <i>National Business Daily</i> (《每日經濟新聞》)
December 2012	2012 China Entrepreneur Support Award (2012中國年度創業支持獎) for our “Yi Kuai Fa” Micro Procurement Card (易快發,小微採購卡)	<i>CY Zone</i> magazine (《創業邦》)
November 2012	Outstanding Service Product Award (優秀服務產品獎) for our Sunshine Financing Loan	2012 International Outstanding SME Services Provider Conference organized by the China Association of Small and Medium Enterprises
November 2012	2012 The Most Popular Featured SME Financial Product (2012全國中小企業最受歡迎金融特色產品)for our Sunshine Financing Loan	The Seventh Annual Meeting of China’s Small and Medium Entrepreneurs
November 2012	2012 Top 10 Commercial Banks Supporting the Development of SMEs (2012年度全國支持中小企業發展十佳商業銀行)	The Seventh Annual Meeting of China’s Small and Medium Entrepreneurs
May 2012	Top 10 Financial Product Marketing Award (十佳金融產品營銷獎) for our Guang He Dong Li low-carbon financial services (光合動力低碳金融服務套餐)	2012 China Financial Innovation Award Contest organized by <i>The Chinese Banker</i> magazine (《銀行家》)

BUSINESS

Date	Award/Recognition/Honor	Event/Organization/Publication
December 2011	2011 The Top 10 Financial Service Institutions for SMEs in China (2011中國中小企業金融服務十佳機構)	“The Chinese Financial Institution Golden Medal List – the Golden Dragon Prize” jointly organized by China’s <i>Financial News</i> (《金融時報》) and the Institute of Finance and Banking of the Chinese Academy of Social Sciences
November 2011	2011 Top 10 Commercial Banks Supporting the Development of SMEs (2011年度全國支持中小企業發展十佳商業銀行)	The Sixth Annual Meeting of China’s Small and Medium Entrepreneurs
November 2011	2011 Most Popular Financial Featured Products among Chinese SMEs (2011全國中小企業最受歡迎金融特色產品) for our Guang He Dong Li low-carbon financial services (光合動力低碳金融服務套餐)	The Sixth Annual Meeting of China’s Small and Medium Entrepreneurs
November 2011	2011 Outstanding Service Products for SMEs (2011年度優秀中小企業服務產品) for our SME financing loan (融易貸) service package	The Fifth Small and Medium Enterprise Fair
The first quarter of 2011	Outstanding SME Service Brand (卓越中小企業服務管理品牌獎) for our SME department’s “Sunshine Value Creation Plan (陽光創值計劃)	The Wise Money 2010 Financial Wealth Management League Table published by <i>Wise Money</i> magazine (《卓越理財》)
February 2011	Our President, Mr. GUO You, was named as one of the “ Top 10 Leaders of 2010 of Financial Services for Small Enterprises by Banking Financial Institutions ” (2010年度銀行業金融機構小企業金融服務十大領軍人物)	CBRC
Electronic Banking		
January 2013	Most Trustworthy Online Banking Payment Brand by Internet User Award (網民最信賴網銀支付品牌獎)	“First Electronic Payment Development Seminar”(首屆電子支付發展研討會) held by Xinhuanet and China Financial Certification Authority
December 2012	Best Electronic Banking (最佳電子銀行)	“The Chinese Financial Institution Golden Medal List – the Golden Dragon Prize” jointly organized by China’s <i>Financial News</i> (《金融時報》) and the Institute of Finance and Banking of the Chinese Academy of Social Sciences

BUSINESS

Date	Award/Recognition/Honor	Event/Organization/Publication
December 2012	2012 Electronic Banking Services Award of the Year (2012年度電子銀行服務獎)	“The 2012 Asian Banks Competitive Rankings Report” Release Ceremony held during the Seventh Annual Finance Summit of Asia. The event was hosted by <i>21st Century Business Herald</i> (《21世紀經濟報道》)
October 2012	Most Innovative Service and Best User Experience Award (最佳創新服務用戶體驗獎)	The 2012 China Fifth Electronic Banking Summit Forum (2012年第五屆中國電子銀行高峰論壇) hosted by hexun.com (和讯網)
December 2011	Best Electronic Banking of the Year (年度最佳電子銀行)	“The Chinese Financial Institution Golden Medal List – the Golden Dragon Prize” jointly organized by China’s <i>Financial News</i> (《金融時報》) and the Institute of Finance and Banking of the Chinese Academy of Social Sciences
December 2011	2011 Best Chinese Internet Banking Customer Experience Award (2011年中國網上銀行最佳客戶體驗獎)	2011 Chinese Electronic Banking Annual Conference organized by China Financial Certification Authority and approximately 40 member banks
November 2011	2011 Best Enterprise Website Silver Award (2011年最佳企業網銀獎) for our internet banking service	The 9th China Financial and Economic Heroes Campaign held by hexun.com
Investment Banking Business		
March 2012	2012 Golden Bull Investment Banking Business among Commercial Banks Award (2012年金牛銀行投行獎)	<i>China Securities Journal</i> (《中國證券報》)
December 2011	2011 Outstanding Award for Underwriting Certificated Bonds (2011年度憑證式國債承銷優秀獎)	The MOF and the PBOC
May 2010	The Best Bond Underwriting Bank (最佳債券承銷銀行)	The best PRC investment bank competition (banking category) organized by China’s <i>Securities Times</i> (《證券時報》)
May 2010	The Best Bond Underwriting Project (最佳債券承銷項目) for our underwriting of the RMB40.0 billion 2009 to 2011 medium-term notes of Shenhua Group Corporation Limited	The best PRC investment bank competition (banking category) organized by China’s <i>Securities Times</i> (《證券時報》)

BUSINESS

Date	Award/Recognition/Honor	Event/Organization/Publication
Information Technology		
December 2012	PBOC 2012 Bank Technological Development Awards for eight bank projects	PBOC
February 2012	PBOC 2011 Bank Technological Development Awards for five bank projects	PBOC
December 2010	PBOC 2010 Bank Technological Development Awards for four bank projects	PBOC
Credit Card Business		
January 2013	Outstanding Innovative Credit Card Award (卓越創新信用卡獎) for our “Lehuijin” Card (樂惠金卡)	The Wise Money 2012 Financial Wealth Management League Table published by <i>Wise Money</i> magazine (《卓越理財》)
December 2012	2012 The Most Reputable Credit Card (2012年度最佳口碑信用卡)	The Third Session of the Golden Tripod Awards held by <i>National Business Daily</i> (《每日經濟新聞》)
November 2012	2012 Most Innovative Credit Card (中國信用卡行業最佳創新獎)	The General Assembly Jindian Awards Ceremony for Public Satisfaction and Welfare for the National Services Industry (金典獎—全國服務業公眾滿意度公益調查揭曉新聞發佈盛典大會) hosted by <i>Economy</i> magazine (《經濟》) and others
November 2012	2012 Top 10 Most Favorite Credit Card Brands in China (2012中國十大最受青睞信用卡品牌)	2012 Retail Banks Annual Conference of China organized by <i>Moneyweek</i> magazine (《理財週報》)
The first quarter of 2012	Outstanding Banking Card Award (卓越銀行卡獎) for our “Fortune Card” (福卡)	The Wise Money 2011 Financial Wealth Management League Table published by <i>Wise Money</i> magazine (《卓越理財》)
January 2012	2012 Highest Customer Satisfaction for Credit Cards (中國信用卡行業用戶滿意最具價值品牌)	Jihua Awards presentation for Management Innovation and Chinese Leadership Development (中國管理創新與發展領袖年會暨華尊獎頒獎) hosted by <i>Economy</i> magazine (《經濟》) and others
December 2011	Best Brand Value Award (最佳品牌價值獎) for our credit cards	“Creation by Wisdom Ore Decade, (智造十年)” Campaign organized by Institute of Industrial Economics of Chinese Academy of Social Science

BUSINESS

Date	Award/Recognition/Honor	Event/Organization/Publication
December 2011	Most Popular Credit Card among the General Public (最受老百姓喜愛信用卡) for our “Fortune Card” (福卡)	The 2011 Financial League Table hosted by <i>Digital Business Times</i> (《數字商業時代》)
December 2011	Most Popular Cultural-Themed Credit Card of the Year (年度最受歡迎文化主題信用卡) for our “Fortune Card” (福卡)	The 2011 Innovative Financial Brands Campaign held by <i>Southern Weekend</i> (《南方週末》)
December 2011	China’s Glory Credit Card of the Year (年度最具中國魅力信用卡) for our “Fortune Card” (福卡)	The 2011 Grand Tourism Ceremony organized by <i>World</i> magazine (《世界》)
The first quarter of 2011	2010 Top Credit Card Center Award of the Year (2010年度最佳信用卡中心獎)	The Fifth Annual Brand Recognition Competition sponsored by <i>Beijing News</i> (《新京報》)
The first quarter of 2011	Outstanding Banking Card Award (卓越銀行卡獎) for our Sunshine combined debit and credit card (陽光存貸合一卡)	The Wise Money 2010 Financial Wealth Management League Table published by <i>Wise Money</i> magazine (《卓越理財》)
December 2010	2010 Best Low-carbon Finance Award (2010年最佳低碳金融獎) for our credit card	The 2010 Golden Phoenix Wealth Management Session organized by Ifeng.com and Phoenix Satellite Television
December 2010	2010 Award for Credit Card with Potential Growth (2010年度信用卡潛力獎)	2010 Netease Golden Diamond Awards session organized by Netease
July 2010	The Best User Experience for our combined debit and credit card (最佳用戶體驗信用卡)	The 2010 China Credit Card Summit (Tencent.com credit card evaluation report session) organized by Tencent.com and other organizations
April 2009	Elan Award – The Best Secure Financial Card Design Award (伊蘭獎–最佳安全金融卡設計獎) for our Sina Music Credit Card	International Card Manufacturers Association
	This was the first time a Chinese card-issuing enterprise won the award since the Elan Awards came into existence 23 years ago (at the time of the award)	
Money Market		
March 2012	2011 Outstanding Trading Member of the Inter-bank Local Currency Market (2011年度銀行間本幣市場優秀交易成員)	The China Foreign Exchange Trading System & National Inter-bank Funding Center

BUSINESS

Date	Award/Recognition/Honor	Event/Organization/Publication
February 2012	2011 Outstanding Market Maker of the Inter-bank Foreign Exchange Market (2011年度銀行間外匯市場優秀做市商)	The China Foreign Exchange Trading System & National Inter-bank Funding Center
January 2012	2011 Outstanding Settlement Member in the National Inter-bank Bond Market (2011年度全國銀行間債券市場優秀結算成員)	The China Central Depository and Clearing Co., Ltd.
2000-2012 (for each year)	The J.P. Morgan (Elite) Quality Recognition Award (清算質量認證獎)	J.P. Morgan Chase
Corporate Banking		
October 2012	The Best Enterprise Annuity Services Award (最佳企業年金服務獎)	“2012 China CFO Most Trusted Banks” selection campaign (2012年度中國 CFO最信賴銀行評選活動) organized by <i>CFO World</i> magazine (《首席財務官》)
April 2011	Top 10 Financial Products in Corporate Banking Business Award (公司業務金融產品十佳獎) for the marketing case of our “Guang He Dong Li” (光合動力) low-carbon financial services	<i>The Chinese Banker</i> magazine (《銀行家》)
2010	The Best Corporate Finance Brand Award (最佳公司金融品牌獎)	The 2010 Treasury World Chinese Enterprise Financial Innovation Forum and the Fourth Annual Ceremony for the Most Reliable Bank among the PRC CFOs Awards hosted by <i>CFO World</i> magazine (《首席財務官》)
Retail Banking		
November 2012	2012 Top 10 Retail Banks of China (2012中國十大最佳零售銀行)	2012 Retail Banks Annual Conference of China organized by <i>Moneyweek</i> magazine (《理財週報》)
The first quarter of 2012	Outstanding Retail Loan Product Award (卓越個貸產品獎) for our “Sunshine Business Growth Loan (陽光助業貸款)”	The Wise Money 2011 Financial Wealth Management League Table published by <i>Wise Money</i> magazine (《卓越理財》)

BUSINESS

Date	Award/Recognition/Honor	Event/Organization/Publication
Cash Management		
January 2013	The Best Cash Management Bank Award (最佳現金管理銀行獎)	“2012 Pilot China Finance Industry Innovation and Development Summit Forum and Annual Campaign Award Ceremony” (2012領航中國金融行業創新發展高峰論壇暨年度評選頒獎盛典) by JRJ.com (金融界) and PBC School of Finance, Tsinghua University
October 2012	The Best Cash Management Innovation Award (最佳現金管理創新獎)	“2012 China CFO Most Trusted Banks” selection campaign (2012年度中國CFO最信賴銀行評選活動) organized by <i>CFO World</i> magazine (《首席財務官》)
November 2011	Most Innovative Cash Management Bank Award (最佳創新性現金管理銀行獎)	The annual competition organized by TreasureChina
2010	The Best Cash Management Innovation Award (最佳現金管理創新獎)	The 2010 Treasury World Chinese Enterprise Financial Innovation Forum and the Fourth Annual Ceremony for the Most Reliable Bank among the PRC CFOs Awards hosted by <i>CFO World</i> magazine (《首席財務官》)
Marketing		
May 2012	2012 China Financial Innovation Award – Top 10 Financial Products Marketing Award (2012中國金融創新獎 – 十佳金融產品營銷獎)	<i>The Chinese Banker</i> magazine (《銀行家》) and Financial Research Institute of the Chinese Academy of Social Sciences
January 2011	2010 Top Financial Marketing Service Award (2010最佳金融營銷服務獎)	The Fifth Annual Brand Recognition Competition sponsored by <i>Beijing News</i> (《新京報》)
January 2010	2009 China Finance Marketing Award – Top 10 Financial Products Award (2009中國金融營銷獎–金融產品十佳獎) for our marketing case “Full Link, Link Full” (全程通, 通全程)	<i>The Chinese Banker</i> magazine (《銀行家》)

BUSINESS

Date	Award/Recognition/Honor	Event/Organization/Publication
Customer Services		
December 2012	2012 China's Best Online Banking Customer Experience Award (2012年中國最佳網上銀行用戶體驗獎)	2012 China Electronic Banking Annual Conference organized by CFCA (中國金融認證中心)
January 2011	The Best Customer Banking Service Group (年度銀行最佳服務團隊)	Jin Ding Awards – China High-End Private Wealth Management Awards Ceremony hosted by the <i>National Business Daily</i> (《每日經濟新聞》)
December 2010	China Banking Industry World Expo Financial Services Advanced Group Award (中國銀行業世博金融服務先進集體獎) to our Shanghai branch, Chongqing branch's business department and Shanghai Huamu subbranch	The China Banking Association
2010	2010 China's Best Online Banking Customer Experience Award (2010年中國網上銀行最佳客戶體驗獎)	The 2010 Chinese Online Banking Annual Conference organized by the China Financial Certification Authority
Management Team		
July 2012	2012 The Best Boards of Directors of Chinese Listed Companies (2012年中國上市公司最佳董事會)	“The Third Session of the Top 100 Chinese Listed Companies with the Most Comprehensive Strengths” selection campaign (“第三屆中國上市公司綜合實力100強”評選)
July 2012	2012 The Most Competitive Enterprise of Chinese Listed Companies (2012年中國上市公司最具競爭力企業)	“The Third Session of the Top 100 Chinese Listed Companies with the Most Comprehensive Strengths” selection campaign (“第三屆中國上市公司綜合實力100強”評選)
February 2011	Our President, Mr. GUO You, was named as one of the “ Top 10 Leaders of 2010 in Financial Services for Small Enterprises by Banking and Financial Institutions ” (2010年度銀行業金融機構小企業金融服務十大領軍人物)	CBRC
January 2011	Outstanding Banker (卓越銀行家) for our President, Mr. GUO You	The Wise Money 2010 Financial Wealth Management League Table published by <i>Wise Money</i> magazine (《卓越理財》)

BUSINESS

Date	Award/Recognition/Honor	Event/Organization/Publication
May 2010	Our chairman, Mr. TANG Shuangning, was named as one of “The Twenty Most Influential Leaders of Listed Companies in the PRC Securities Market of the Last 20 Years” (中國證券市場20年20位最具影響力上市公司領袖)	The Fourth PRC Listed Companies Market Value Management Summit and the PRC Securities Market 20 Year Review and Forecast
Brand		
January 2013	Outstanding Brand Value Bank Award (卓越品牌價值銀行獎)	The Wise Money 2012 Financial Wealth Management League Table published by <i>Wise Money</i> magazine (《卓越理財》)
August 2012	Top 20 Banks Honorary Award (China) (20大銀行榮譽獎 (中國地區))	<i>Asia Week</i> (《亞洲週刊》)
August 2012	Top 20 Banks with the Highest Net Profit Award (20大純利最高銀行榮譽獎)	<i>Asia Week</i> (《亞洲週刊》)
October 2011	The only financial enterprise that received the “CCTV Brands of the Year in China” (CCTV中國年度品牌)	“The 2011 CCTV Brands of the Year in China List” ceremony initiated by NDRC, Ministry of Commerce, SAIC, AQSIQ, China Consumers’ Association and China Central Television, hosted and organized by China Network Television

OUR PRINCIPAL BUSINESSES

Our principal business segments are corporate banking, retail banking and treasury operations. The following table sets forth, for the periods indicated, our operating income by business segments.

	For the year ended December 31,						For the 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	25,553	71.5%	32,060	69.4%	40,510	67.5%	20,320	66.5%	21,283	62.9%
Retail banking	8,200	23.0	12,079	26.1	15,989	26.6	7,960	26.1	9,884	29.2
Treasury operations ..	1,928	5.4	1,990	4.3	3,452	5.7	2,198	7.2	2,615	7.7
Other operations ⁽¹⁾	47	0.1	69	0.2	119	0.2	53	0.2	56	0.2
Total	35,728	100.0%	46,198	100.0%	60,070	100.0%	30,531	100.0%	33,838	100.0%

Note:

(1) Primarily comprises operating income from our equity investment and other non-operating income.

Corporate Banking

We provide a broad range of corporate banking products and services to government agencies, financial institutions and corporations. Corporate banking constitutes our primary source of income and consists primarily of corporate loans, discounted bills and corporate deposits, as well as fee- and commission-based products and services such as agency services for public finance, tariff payment and guarantee services, remittance and settlement services, acceptance and guarantee services, assets custody services, cash management, investment banking and financial advisory services. As of December 31, 2010, 2011 and 2012 and June 30, 2013, our corporate loans balance (including discounted bills) accounted for 75.1%, 73.7%, 69.6% and 67.3% of our total loans, respectively, and our deposits attributable to our corporate customers¹ accounted for 84.3%, 80.8%, 78.0% and 76.6% of our total deposits from customers, respectively. Operating income from corporate banking accounted for 71.5%, 69.4%, 67.5% and 62.9% of our total operating income as of December 31, 2010, 2011 and 2012 and June 30, 2013, respectively.

Customer Base

We have extensive customer relationships with many large Chinese business groups and leading companies, government agencies, financial institutions and SMEs which we believe have strong growth potential. As of June 30, 2013, we had provided banking services to approximately 90% of the state-owned enterprises under the direct administration of the SASAC, as well as to a large number of enterprises included in the Top 500 Enterprises of China List jointly published by the China Enterprise Confederation and China Enterprise Directors Association (中國企業聯合會及中國企業家協會). We have developed relationships with more than 1,000 large business groups and leading companies in their respective industries in China. We believe that we are one of the few PRC commercial banks approved by the MOF to simultaneously engage in the following three types of business: (i) the direct payment of expenditures on behalf of the MOF, (ii) the authorized payment of expenditures on behalf of the MOF and (iii) the non-tax revenue collection on behalf of the MOF. We are a leading domestic underwriter of short-term commercial paper and medium-term notes in China. In addition to expanding our customer base, we have also focused on optimizing our customer mix. As of June 30, 2013, we had approximately 443,000 corporate deposit customers, among which approximately 12,700 had more than RMB10 million in deposit, and approximately 30,000 corporate loan customers, among which approximately 8,000 had more than RMB10 million in loans outstanding.

SMEs are strategically important to our development and growth. From December 31, 2010 to June 30, 2013, the number of our SME customers that undertook credit transactions with us increased from approximately 10,000 to approximately 21,000. We mainly focus on the following three types of SMEs: (i) supply chain participants who have advanced production facilities and equipment as well as advanced technologies to provide long term supporting services or supplies to large state-owned enterprises, leading companies, government agencies and other core clients; (ii) SMEs clustered in certain regions or industries who have brands with sound reputations and high market shares in these regions or industries; and (iii) high-tech SMEs which have been included in the national SME administration and service system, including technological SMEs within national-level high-tech industrial parks, software parks, industrial bases for the Torch Program (a national program to develop high and new technologies) and national university technology parks. Our SME loan balance grew by 30.1% from as of June 30, 2012 to as of June 30, 2013 and at a CAGR of 38.2% from as of December 31, 2010 to as of December 31, 2012. Our percentage of SME loans to total corporate loans grew from 19.7% as of December 31, 2010 to 30.7% as of December 31, 2012 and further to 31.6% as of June 30, 2013.

¹ Including corporate deposits, corporate pledged deposits, corporate funds deposited with us for remittance and corporate structured deposits.

BUSINESS

We also focus on developing long-term relationships with customers in economically developed regions such as the Bohai Rim, the Yangtze River Delta and the Pearl River Delta, as well as in those industries strategically important to China's economy. As of June 30, 2013, approximately 62% of our corporate deposit customers and approximately 68% of our corporate loan customers were located in these three regions. As of June 30, 2013, the top five industries to which we provided corporate loans were: (i) manufacturing, (ii) wholesale and retail, (iii) real estate, (iv) transportation, storage and postal services and (v) construction, which represented 31.9%, 19.2%, 12.5%, 9.2% and 5.5% of our total corporate loans, respectively, and together represented 78.3% of the balance of our total corporate loans as of the same date. As of December 31, 2011 and 2012, the top five industries to which we provided corporate loans were: (i) manufacturing, (ii) wholesale and retail, (iii) real estate, (iv) transportation, storage and postal services and (v) leasing and commercial services, which together represented 76.7% and 78.3% of our total corporate loans, respectively. As of December 31, 2010, the top five industries to which we provided corporate loans were (i) manufacturing, (ii) real estate, (iii) water, environment and public utilities management, (iv) wholesale and retail and (v) transportation, storage and postal services, which together represented 73.7% of our total corporate loans.

Major Products and Services

Corporate Loans

Corporate loans are the largest component of our loan portfolio. Based on maturity, our corporate loans can be classified into short-term loans and medium- to long-term loans. Our corporate loans mainly include supply chain finance, SME loans and trade finance. Our corporate loans are predominantly RMB-denominated. As of December 31, 2010, 2011 and 2012 and June 30, 2013, we had RMB571.2 billion, RMB642.0 billion, RMB699.1 billion and RMB731.5 billion in corporate loans outstanding, respectively, representing a CAGR of 10.6% from 2010 to 2012.

Supply Chain Finance

In response to the growing demand for financially efficient supply chains, we provide our targeted customers with supply chain finance by extending our banking services to their customers and suppliers. The banking services we provide to the customers and suppliers on the supply chain primarily comprise working capital loans, discounted bills, bank acceptance bills, settlement, letters of credit and letters of guarantee. Our supply chain finance solutions connect our key customers with manufacturers, suppliers, distributors, end users and other parties at upstream and downstream levels of the supply chain.

We believe that supply chain finance represents an opportunity for us to transform from a bank that meets only a fraction of our customers' trade needs to an integral and valued business partner that provides optimal solutions across our customers' entire supply chain. Supply chain finance helps our customers reduce costs and optimize working capital from one end of the supply chain to the other. Moreover, it creates deeper and broader customer relationships for us during the process and creates synergies among our various business lines.

We believe that we have a first-mover advantage and are the market leader in the supply chain finance business in China. We started providing supply chain finance for the automotive industry under our brand "Full Link" (全程通) in 2000, which provides comprehensive and customized banking services to suppliers of automobile spare parts, automakers and distributors at each stage of the automotive production and distribution processes. At the upstream and midstream levels, we provide suppliers of automobile spare parts and automakers with working capital loans, discounted bills and letters of credit to facilitate the production of automobiles and import of spare parts. At the downstream level, we provide distributors with loans and discounted bills. As of June 30, 2013, we had approximately 3,800 "Full Link"

(全程通) active customers¹. For the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, the transaction volume for our “Full Link” (全程通) service amounted to approximately RMB113.5 billion, RMB149.5 billion, RMB161.6 billion and RMB85.9 billion, respectively.

Our success in providing supply chain finance in the automotive industry enables us to replicate such business model across other industries. We have been expanding our supply chain finance business into other industries that we believe have strong growth potential, such as the pharmaceutical industry and the home appliance industry.

SME Business

Our SME business is strategically important to our growth. Since 2009, we have established the SME and related divisions at our headquarters and branch outlets on an ongoing basis. Our specialized service team and tailored credit approval procedure drive the rapid development of our SME business and enhance our SME service efficiency and quality. We have expanded our SME coverage to all our branches. Under our “Sunshine Value Plan” (陽光創值計劃), we provide our SME customers with not only traditional banking services, such as working capital loans and discounted bank acceptance bills, but also innovative and value-added services in the areas of securities, insurance and investment banking. In 2011, we expanded our SME business to small enterprise financing so as to diversify our revenue sources and increase customer loyalty by providing comprehensive financial services through multiple channels. In 2012, we also launched the “Thousands of Customers Growth Plan” (千戶成長計劃) to cultivate high-quality enterprise customers with high-growth potential and provide them with multi-market, multi-product financing solutions to meet their needs as they progress through their different stages of business development.

We have developed tailored credit plans for SMEs through model-based operations. Over the last three years, our SME loan business has grown rapidly. The total number of our SME customers that have a credit balance with us increased from 10,295 as of December 31, 2010 to 17,547 as of December 31, 2012, representing a CAGR of 30.6%. As of June 30, 2013, our total SME customers that undertook credit transactions with us had increased further to approximately 21,000. As of December 31, 2010, 2011 and 2012 and June 30, 2013, the balance of deposits from our SME customers amounted to approximately RMB147.4 billion, RMB185.7 billion, RMB203.5 billion and RMB218.3 billion, respectively. As of December 31, 2010, 2011 and 2012 and June 30, 2013, our SME loan balance amounted to RMB112.2 billion, RMB143.3 billion, RMB214.3 billion and RMB231.0 billion, respectively. As of June 30, 2013, approximately 70.6% of our SME loan business was focused in economically developed areas of China, with 20.2% in the Bohai Rim, 31.2% in the Yangtze River Delta and 19.2% in the Pearl River Delta. Under our prudent risk management, the risk relating to our SME business is under control.

We received a number of recognitions for our SME financial services. The CBRC named Mr. GUO You, our President, one of the “Top 10 Leaders of 2010 of Financial Services for Small Enterprises by Banking Financial Institutions” (2010年度銀行業金融機構小企業金融服務十大領軍人物). At the Fifth Small and Medium Enterprise Fair (第五屆中小企業節), our SME financing loan (融易貸) service package won the “2011 Outstanding Service Products for SMEs” (2011年度優秀中小企業服務產品) award. At the Sixth Annual Meeting of China’s Small and Medium Entrepreneurs (第六屆中國中小企業家年會), we won the “2011 Top 10 Commercial Banks Supporting the Development of SMEs” (2011年度全國支持中小企業發展十佳商業銀行) award. In 2011, we won the “2011 The Top 10 Financial Service Institutions for SMEs in China” (2011中國中小企業金融服務十佳機構) at an award event jointly organized by China’s *Financial News* (《金融時報》) and the Institute of Finance and Banking of the Chinese Academy of

¹ An active customer is a customer who holds a valid credit approval or whose deposit is not nil.

BUSINESS

Social Sciences (中國社會科學院金融研究所). In May 2012, we were awarded the Top 10 Financial Product Marketing Award (十佳金融產品營銷獎) for our “Guang He Dong Li” (光合動力) low-carbon financial services (光合動力低碳金融服務套餐) at the 2012 China Financial Innovation Award Contest organized by *The Chinese Banker* magazine (《銀行家》). In November 2012, we received the “Outstanding Service Product Award” (優秀服務產品獎) for our Sunshine Financing Loan at the 2012 Outstanding SME Services Provider International Conference organized by the China SME Association, and were awarded “2012 The Most Popular Featured SME Financial Product” (2012全國中小企業最受歡迎金融特色產品) for our Sunshine Financing Loan and “2012 Top 10 Commercial Banks Supporting the Development of SMEs” (2012年度全國支持中小企業發展十佳商業銀行), both at The Seventh Annual Meeting of China’s Small and Medium Entrepreneurs. In December 2012, we were awarded the Social Responsibility Award (社會責任大獎) for our “Government Procurement Financing Loans” (政採融易貸) at the 2012 China Government Procurement Summit (中國政府採購高峰論壇2012) organized by China Government Procurement Publishing (中國政府採購報社). In June 2013, we were awarded the title of 2013 China Low-Carbon Model Enterprise (2013中國低碳典範企業) at the 2013 China Low-Carbon Model Enterprise Summit and Award Ceremony organized by the *Economic Observer* (《經濟觀察報》) and the Economic Observer Institute (經濟觀察研究院).

Trade Finance

We provide trade finance services to customers engaging in domestic or international trade. Our domestic trade finance services primarily comprise finance under domestic letters of credit, factoring, supply chain buyers’ finance and supply chain sellers’ finance, among others. Our international trade finance services primarily comprise import finance bills, export finance bills, packing loans, export discounts, forfeiting, factoring and trade finance under export credit insurance. The transaction volume of our trade finance amounted to approximately RMB348.3 billion, RMB487.1 billion, RMB585.5 billion and RMB265.3 billion, for the years ended December 31, 2010, 2011 and 2012 and for the six months ended June 30, 2013, respectively. The volume of our international settlement transactions amounted to approximately US\$46.8 billion, US\$62.0 billion, US\$74.4 billion and US\$50.3 billion, respectively, for the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013.

Discounted Bills

Discounted bills refer to our discounted purchase of bank acceptance bills and commercial acceptance bills with a remaining maturity of less than six months (no longer than one year for electronic commercial bills). We may resell these bills to the PBOC or other financial institutions authorized to conduct bill discounting, which would provide us with additional liquidity and net interest income. As of June 30, 2013, we had outstanding discounted bills of RMB11,897 million, representing 1.1% of our total loan amount. We have proactively participated, together with the PBOC, in the development of our electronic bill business and the construction and promotion of the e-bill system. As a result, we were granted the “Business Development Award for Electronic Commercial Bills” (電子商業匯票業務拓展獎) by the PBOC. As of June 30, 2013, discounted bank acceptance bills outstanding accounted for 87.7% of our total discounted bills outstanding.

Deposits Attributable to Our Corporate Customers

We offer our corporate customers time and demand deposits in Renminbi and other major foreign currencies through a range of products including corporate deposits, corporate pledged deposits, corporate funds deposited with us for remittance and corporate structured deposits. As of June 30, 2013, our deposits attributable to our corporate customers amounted to RMB1,190,459 million, which consisted of RMB919,241 million of corporate deposits, RMB246,770 million of corporate pledged deposits, RMB4,339 million of corporate funds deposited with us for remittance and RMB20,109 million of corporate structured deposits.

BUSINESS

Fee- and Commission-based Products and Services

We provide our corporate customers with a broad range of fee- and commission-based products and services, including agency services for public finance, tariff payment and guarantee services, remittance and settlement services, acceptance and guarantee services, asset custody services, cash management services and investment banking and financial advisory services. As we have focused on developing and offering fee- and commission-based corporate banking products and services in recent years, we generated net fee and commission income of RMB2,566 million, RMB3,604 million, RMB3,928 million and RMB2,660 million for the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, respectively, representing a CAGR of 23.7% from 2010 to 2012.

Agency Services for Public Finance

We provide agency services to central and local governments in respect of the collection of revenues and payment of expenditures. We believe that we are one of the few PRC commercial banks approved by the MOF to simultaneously engage in the following three types of business: (i) the direct payment of expenditures on behalf of the MOF, (ii) the authorized payment of expenditures on behalf of the MOF and (iii) the non-tax revenue collection on behalf of the MOF. From January 1, 2010 to June 30, 2013, we provided agency services to the treasury of the PRC central government with an aggregate transaction volume totaling approximately RMB770.7 billion.

Tariff Payment and Guarantee Services

We cooperate with the General Administration of Customs of the PRC to provide online tariff payment and guarantee services for our corporate customers. For the years ended December 31, 2010, 2011 and 2012 and for the six months ended June 30, 2013, tariffs paid through our tax payment service amounted to approximately RMB56.1 billion, RMB68.8 billion, RMB72.5 billion and RMB36.2 billion, respectively, representing a CAGR of 13.7% from 2010 to 2012.

In March 2007, we became one of the first banks authorized by the General Administration of Customs of the PRC to provide banking guarantee services (銀關保) to our online tariff payment customers. Under the banking guarantee services, subject to requests from import and export enterprises, we present the online payment guarantee notes to the governing customs according to the relevant regulations of the General Administration of Customs of the PRC. Our payment guarantee notes enable import and export enterprises to obtain preferential treatment of “clearance before payment,” pursuant to which those enterprises will obtain a grace period of 15 days for delayed tariff payment. For the six months ended June 30, 2013, we had guaranteed tariffs worth approximately RMB29.4 billion.

Remittance and Settlement Services

We provide our corporate customers with remittance, foreign currency exchange and settlement services for bank drafts, bank notes, corporate checks and other negotiable instruments. For the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, our fee and commission income generated from our remittance and settlement services amounted to RMB940 million, RMB1,376 million, RMB1,405 million and RMB850 million, respectively, representing a CAGR of 22.3% from 2010 to 2012. In each of the 13 years from 2000 to 2012, we won the “J.P. Morgan (Elite) Quality Recognition Award” (清算質量認證獎) from J.P. Morgan Chase.

BUSINESS

Acceptance and Guarantee Services

We provide surety services to our corporate banking customers primarily through letters of credit, bid guarantees, performance guarantees and other forms of bank guarantees. For the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, our fee and commission income generated from our acceptance and guarantee services amounted to RMB486 million, RMB649 million, RMB610 million and RMB432 million, respectively, representing a CAGR of 12.0% from 2010 to 2012.

Custody Services

We provide custody services to securities investment funds, securities companies' collective asset management plans, enterprise annuity funds, private wealth management and QDIIs, as well as custody services to trust companies' collective capital trust plans, industrial investment funds and equity funds. We are also among the first batch of National Joint Stock Commercial Banks to obtain both enterprise annuity account manager and custodian qualifications.

Our custody services benefit from the synergy between China Everbright (Group) and us. We endeavor to establish cooperative relationships for the purposes of cross-selling, product design and information sharing with Everbright Securities, Everbright Pramerica Fund Management, Sun Life Everbright, China Everbright Financial Holding Asset Management Company and other subsidiaries and affiliated companies of China Everbright (Group).

Since 2010, we have been focusing on adjusting the distribution of assets under custody, balancing the proportion and structure between securities assets and non-securities assets, steadily promoting the custody of securities assets and vigorously developing the custody of non-securities assets, including, in particular, the custody of insurance fund debt investment plans and structural trust plans, which have achieved outstanding growth. The amount of our insurance fund debt investment plan under custody increased from approximately RMB5,830 million as of December 31, 2010 to RMB98,600 million as of June 30, 2013, while the amount of our securities investment trust plan under custody increased from approximately RMB30,805 million as of December 31, 2010 to approximately RMB77,700 million as of June 30, 2013. In addition, we launched "Full Link Equity Services" (股權服務全程通) in 2012, the first of its kind in the industry, which provides integrated and customized financial services to non-listed enterprises on a customized basis. Such services cover three major areas, namely equity financing, equity transfer and equity custody and are intended to promote multi-level services for capital market transactions.

As of December 31, 2010, 2011 and 2012 and June 30, 2013, we had approximately RMB276.5 billion, RMB438.6 billion, RMB872.2 billion and RMB1,410.9 billion assets under custody, respectively, representing a CAGR of 77.6% from 2010 to 2012. For the six months ended June 30, 2013, our custody and other fiduciary fees amounted to RMB388 million, representing an increase of 38.6% from the six months ended June 30, 2012. For the years ended December 31, 2010, 2011 and 2012, our custody and other fiduciary business fees amounted to RMB193 million, RMB352 million and RMB558 million, respectively, representing a CAGR of 70.0% from 2010 to 2012. We won the "Custody Business Innovation Award" (託管業務創新獎) at the 2010 Beijing Youth Financial Star Campaign (2010年北青財星榜榜單評選活動) organized by the *Beijing Youth Daily* (《北京青年報》).

BUSINESS

Cash Management Services

We provide integrated cash management services to our corporate customers to assist them in managing their cash flow. Our cash management services include cash collection, disbursement, account management, liquidity management, wealth management and financing services. Through our branch and sub-branch network, as well as our internet banking system, we provide our customers who have group entities in multiple locations with comprehensive and one-stop cash management services. As of December 31, 2012, we had approximately 14,972 cash management customers, representing an increase of 57.9% from December 31, 2011, and which the number of cash management customers further increased by 33.8% to 20,038 as of June 30, 2013. The total value of the transaction volume processed by our cash management services reached approximately RMB949.8 billion, RMB1,617.8 billion, RMB3,078.4 billion and RMB5,244.0 billion for the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, respectively, representing a CAGR of 80.0% from 2010 to 2012.

At the 2010 Treasury World Chinese Enterprise Financial Innovation Forum and the Fourth Annual Ceremony for the Most Reliable Bank among the PRC CFOs Awards (“財資天下2010”中國企業金融創新論壇暨第四屆中國CFO最信賴銀行評選頒獎盛典) hosted by *CFO World* magazine (《首席財務官》), we were awarded the “Best Cash Management Innovation Award” (最佳現金管理創新獎) and the “Best Corporate Finance Brand Award” (最佳公司金融品牌獎). In 2011, we received the “Most Innovative Cash Management Bank Award” (最佳創新性現金管理銀行獎) in the annual competition organized by TreasureChina. In October 2012, we received “The Best Cash Management Innovation Award” (最佳現金管理創新獎) as part of the “2012 China CFO Most Trusted Banks Selection Campaign” (2012年度中國CFO最信賴銀行評選活動) organized by *CFO World* magazine (《首席財務官》). In January 2013, we were awarded “The Best Cash Management Bank Award” (最佳現金管理銀行獎) at the “2012 Pilot China Finance Industry Innovation and Development Summit Forum and Annual Campaign Award Ceremony” (2012領航中國金融行業創新發展高峰論壇暨年度評選頒獎盛典) hosted by JRJ.com (金融界) and PBC School of Finance, Tsinghua University.

Investment Banking and Financial Advisory Services

We provide investment banking services and financial advisory services to our corporate customers. We believe that we were one of the first PRC commercial banks to be qualified to underwrite short-term commercial paper when the PRC government started to permit this business in May 2005. Since then, we have actively sought to develop our capabilities and become a market leader in this product area. Our main products include short-term commercial paper, medium-term notes, extra short-term commercial paper, private placement notes, SME combined notes and asset-backed notes. For the six months ended June 30, 2013, we had underwritten non-financial enterprise debt financing instruments for 120 issuers with a total amount of approximately RMB110.1 billion, which ranked us third among National Joint Stock Commercial Banks in this category.

Through our financial advisory service platform, we provide our customers with tailored financial solutions and advice, including derivatives, debt financing, structured financing and in-depth industry and financial markets analysis.

Our innovative and high-quality investment banking and financial advisory services have been well acknowledged by our customers and the media. *China Securities Journal* (《中國證券報》) awarded us the “2012 Golden Bull Investment Banking Business among Commercial Banks Award” (2012年金牛銀行投行獎). In 2010, in the best PRC investment bank competition (banking category) (中國區優秀投行(銀行類)評選) organized by China’s *Securities Times* (《證券時報》), we won “2010 Most Innovative Investment Banking Business among Commercial Banks in China” (2010年中國區最佳創新銀行投行) and “The Best Bond Underwriting Bank” (最佳債券承銷銀行). We were also awarded “Best Bond Underwriting Project” (最佳債券承銷項目) for our underwriting of the RMB40.0 billion 2009 to 2011 medium-term notes of Shenhua Group Corporation Limited.

Marketing

We implement a number of marketing strategies. When marketing our services and products, we take into consideration various factors such as customer recognition and loyalty, risk tolerance, market demand and competition. Our Head Office is responsible for formulating our overall corporate banking business development plans and establishing our general marketing guidelines based on industry, geographical region, customer and product considerations. Our branches develop and implement detailed marketing plans tailored to key regions, customers and businesses based on these guidelines.

Marketing for corporate banking is conducted primarily by our customer relationship managers across different departments. Our customer relationship managers are responsible for marketing our services and products to both existing and prospective customers as well as conducting market analysis and client assessment. We provide our customer relationship managers with on-going training programs to improve their product knowledge, marketing skills and credit assessment capabilities. As of June 30, 2013, we employed 5,133 corporate banking customer relationship managers working closely with other specialized staff to cross-sell our products and services.

We encourage cooperation and cross-selling among different departments and different business lines and have placed significant emphasis on teamwork and cross-department and cross-business line initiatives in marketing. We also cooperate with other financial services subsidiaries of China Everbright (Group) in order to offer our customers a more comprehensive range of financial services.

We seek to provide differentiated products and services tailored to our customers to meet their specific needs. Our Head Office and branches in strategically important cities are generally responsible for coordinating client coverage and marketing efforts for our largest corporate customers in an effort to ensure consistency and quality of service. In response to customer needs, we set up cross-department and cross-business line project teams from time to time.

Retail Banking

We offer our retail banking customers a wide range of products and services, including retail loans, bank cards, retail deposits and fee- and commission-based products and services. We believe that our retail banking business is critical to our success. We have strategically accelerated the development of our retail banking business and continuously reinforced the image of our “Sunshine” brand through expanding our market share, improving our customer base and providing our customers with innovative products and services to satisfy their various demands.

Our retail banking business has experienced rapid growth in recent years. Our retail loans accounted for 24.9%, 26.3%, 30.4% and 32.7%, of our total loans as of December 31, 2010, 2011 and 2012 and June 30, 2013, respectively, and our retail deposits (including retail structured deposits and retail pledged deposits) accounted for 15.7%, 19.2%, 22.0% and 23.4%, of our total deposits from customers as of the same dates, respectively. For the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, our retail banking business generated operating income of RMB8,200 million, RMB12,079 million, RMB15,989 million and RMB9,884 million, respectively, representing 23.0%, 26.1%, 26.6% and 29.2% of our total operating income, respectively.

BUSINESS

Customer Base

We have established an extensive retail banking customer base. We divide our customers into ordinary customers and mid- to high-end customers and have focused our marketing efforts on our mid- to high-end customers, many of whom are senior management officers and small business owners. Among our mid- to high-end customers who have an AUM of over RMB500,000, we define quality customers as those who have an AUM of between RMB500,000 and RMB1 million, affluent customers as those who have an AUM of between RMB1 million and RMB10 million and private banking customers as those who have an AUM of more than RMB10 million.

As of June 30, 2013, we had approximately 1.2 million retail loan customers and approximately 44.0 million retail deposit customers with total deposits of RMB364,232 million (including retail structured deposits and retail pledged deposits). From 2010 to 2012, the number of customers with assets under our management exceeding RMB500,000 and RMB10 million have increased at a CAGR of 27.6% and 46.1%, respectively. As of June 30, 2013, we had approximately 250,582 mid- to high-end customers that had assets under our management in excess of RMB500,000. As of December 31, 2010, 2011 and 2012 and June 30, 2013, the assets of such represented 52.4%, 55.9%, 61.5% and 65.5%, respectively, of the total AUM of our retail banking business.

In light of the rapid growth of GDP and personal disposable income in China, we believe that the number of our mid- to high-end customers and the average value of their financial assets will continue to increase. We intend to further broaden our customer base and improve our customer loyalty by providing tailored retail banking products, expanding our retail banking sales force and applying differential pricing policies. Moreover, we have expanded the use of electronic banking platforms such as internet banking, mobile banking and ATMs, which offer greater convenience to our customers and reduce our operating expenses.

Major Products and Services

Retail Loans

As of December 31, 2010, 2011 and 2012 and June 30, 2013, our retail loans outstanding totaled RMB193,807 million, RMB233,454 million, RMB311,454 million and RMB361,135 million, respectively, representing a CAGR of 26.8% from 2010 to 2012.

Residential and Commercial Mortgage Loans

We provide our customers with residential and commercial mortgage loans for the purchase of residential and commercial properties, respectively. As of June 30, 2013, the amount of our residential and commercial mortgage loans outstanding was RMB171,227 million, accounting for 47.4% of our total retail loans and representing an increase of RMB52,947 million from December 31, 2010. In order to improve overall yield, we have a differentiated pricing strategy for residential and commercial mortgage loans.

As of June 30, 2013, the amount of outstanding residential mortgage loans for newly built homes was approximately RMB91,375 million, accounting for 53.4% of our total residential and commercial mortgage loans. However, in light of China's increasing urbanization and as China's residential property market matures, we expect mortgages for the purchase of secondary market properties to increase as a proportion of our total residential mortgage lending business. Our residential mortgage loans are generally secured by the underlying property being purchased. We generally offer mortgage loans with maturities of up to 30 years and for up to 70% of the property value. We also offer commercial mortgage loans to finance the purchase of commercial properties by our customers. Typically, our commercial mortgage loans have terms of less than ten years, and the amount of the loan is normally not more than 50% of the value of the underlying commercial property or not more than 55% of the value of the underlying property where it is used for both commercial and residential purposes.

BUSINESS

In order to satisfy the diverse demands of our customers, we have initiated an electronic preliminary loan approval procedure which allows our customers to be informed of the results of the approval process during their secondary market property transaction. To facilitate the efficiency of the loan approval process, we also introduced an automatic approval procedure in 2011. In addition, we have introduced collateralized loans with maximum limits and with a simple approval process, whereby a borrower may use a purchased property as collateral to take out loans that can be revolved within 30 years within the relevant loan's credit limit.

In recent years, the PRC government has implemented a series of adjustment measures aimed at cooling down the PRC real estate market. For example, in October 2010, the PBOC and the CBRC issued a circular suspending the extension of residential mortgage loans to property buyers who are non-residents of a given area unless such property buyers can prove that they have paid taxes or social insurance in that area for at least one year. While such new policies will generally influence the demand for mortgage loans in the market, our residential and commercial mortgage loans outstanding nonetheless increased from RMB118,280 million as of December 31, 2010 to RMB171,227 million as of June 30, 2013, representing 47.4% of our total retail loans outstanding. A notice issued by the State Council in January 2011 required commercial banks to grant loans for the purchase of a second residential property and any subsequent residential property with interest rates at no less than 110% of the PBOC benchmark interest rate. The State Council issued a circular on February 26, 2013 requiring PRC banks to strictly follow the government policies regarding down payment and lending rates for first-time homebuyers and tighten the credit policies for second-time homebuyers. The circular also provided that relevant ministries should cooperate to verify the original value of taxable houses and to impose a 20 percent tax on profit generated from certain residential property transactions.

Micro-enterprise Business

We have dedicated ourselves to forming a customized business model that serves micro-enterprises and provides them with a comprehensive range of high-quality financial service and solutions. We promoted “Sunshine Entrepreneur” (“陽光企業家”), a micro-enterprise cash management platform, which allowed us to serve the financial-related needs of our micro-enterprise customers online. In addition, we established a professional team to serve micro-enterprises and increased our overall revenue.

As of June 30, 2013, the balance of our micro-enterprise personal loans (including loans to micro-entrepreneurs and individual industrial and commercial entities) amounted to RMB133.3 billion and accounted for 36.9% of our total retail loans. As of the same date, the number of micro-enterprise customers reached approximately 750,000. For the six months ended June 30, 2013, the average term of our micro-enterprise personal loans was 2.49 years, while the interest rate for newly granted loans to micro-enterprises reached 7.84%, and the average pricing premium to benchmark rate reached approximately 30.7%.

Our micro-enterprise business has also received many awards and recognitions. In December 2012, we were awarded the “2012 Micro-Financing Services Product Innovation Award” (2012年度小微融資服務產品創新獎) for our “Real Estate Mortgage Quick Loan” (房抵快貸) at The Third Session of the Golden Tripod Awards (金鼎獎) held by *National Business Daily* (《每日經濟新聞》). Additionally, in December 2012, our “Yi Kuai Fa” Micro Procurement Card (易快發小微採購卡) won the “2012 China Entrepreneur Support Award” (2012中國年度創業支持獎) during the annual meeting of *CY Zone* magazine (《創業邦》).

BUSINESS

Micro-enterprise Equipment Loans

Micro-enterprise equipment loans are a type of loan specially designed for our retail customers who purchase equipment for developing their businesses. Under the arrangement of micro-enterprise equipment loans, we provide equipment purchasers with mortgage loans pursuant to cooperation agreements we enter into with equipment manufacturers. Our clients normally repay the loan with cash generated from their operations. In the event that an equipment purchaser fails to repay the loan, the manufacturer shall repurchase and dispose of the equipment to repay the outstanding loan pursuant to the cooperation agreement.

We started our micro-enterprise equipment loan business in 2003 and we believe we are a pioneer and market leader in this business. As of June 30, 2013, the outstanding balance of our micro-enterprise equipment loans amounted to RMB36,495 million, representing 10.1% of our total retail loans.

Micro-enterprise equipment loans generally have a relatively low NPL ratio. From January 1, 2011 to June 30, 2013, the NPL ratio of our new micro-enterprise equipment loans extended during this period was 0%, and the equipment manufacturers had placed risk deposits with us in full, which in turn mitigate against our risk exposure.

Personal Consumption Loans

Our personal consumption loans mainly comprise consumer loans and automobile loans. As of June 30, 2013, we had approximately RMB18,308 million of personal consumption loans outstanding, representing 5.1% of our total retail loans.

We provide consumer loans for living expenses and general consumption, such as home renovations, car parking spaces, large-ticket durable goods and overseas education. As of June 30, 2013, we had consumer loans outstanding of approximately RMB17,759 million, representing 4.9% of our total retail loans.

We provide automobile loans for up to 70% of the purchase price of the automobile and usually require the purchased automobile or parcels of residential property as collateral for the loan. We target customers with good credit history for automobile loans. As of June 30, 2013, we had approximately RMB549 million in automobile loans outstanding, representing 0.2% of our total retail loans.

From 2009, we started cooperating with Ping An Insurance Co. to provide personal consumption loans with flexible maturity terms of up to 36 months to customers who purchased personal consumption loan insurance from Ping An Insurance Co.. Through such cooperation, we expanded the customer base of our personal consumption loan business.

Bank Cards

We offer a number of bank card products to our customers, comprising a variety of debit cards and credit cards. We believe that we were the first bank in China to offer a combined debit and credit card.

As of June 30, 2013, we had issued approximately 60.8 million bank cards, including approximately 44.5 million debit cards and approximately 16.3 million credit cards. The total fee and commission income generated by our bank card business for the six months ended June 30, 2013 was RMB3,200 million, representing 41.7% of our total fee and commission income for the same period.

We are a member of China UnionPay, China's national inter-bank card information exchange and transaction network organization. We held a 2.56% shareholding in China UnionPay as of September 30, 2013.

BUSINESS

The table below sets forth, as of the dates and for the periods indicated, the total number of bank cards issued and the total transaction volumes for such bank cards.

Item	As of December 31,			As of June 30,
	2010	2011	2012	2013
	(in thousands)			
Number of debit cards issued	28,243	34,340	39,410	44,490
Number of credit cards issued	8,584	11,117	14,580	16,298
Total	36,827	45,457	53,990	60,788

Item	For the year ended December 31,			For the six months ended June 30,	
	2010	2011	2012	2012	2013
	(in millions of RMB)				
Transaction volume for debit cards ⁽¹⁾	55,089	91,365	154,510	61,304	139,867
Transaction volume for credit cards	76,732	118,317	306,691	113,047	257,296
Total	131,821	209,682	461,201	174,351	397,163

Note:

(1) Excluding deposits and money transfers made through debit cards.

Debit Card Services

We issue debit cards under the brand name “Sunshine Card” (陽光卡) to customers who maintain deposit accounts with us. Our Sunshine debit card provides our customers with access to various financial services, including cash deposit and withdrawal, fund transfer, settlement and bill payment services. In addition, our debit card can also be used for fund transactions, foreign exchange transactions, wealth management and some of our other fee- and commission-based businesses.

We have established different levels of Sunshine debit cards to meet the needs of different customers. We issue Sunshine gold cards to those who have assets under our management of no less than RMB100,000 and no more than RMB500,000, Sunshine platinum cards to those who have assets under our management of no less than RMB500,000 and no more than RMB1 million and Sunshine diamond cards to those who have assets under our management of more than RMB1 million. From time to time, we introduce new types of debit cards with special features or co-branded cards with our business partners. For example, we introduced the “Sunshine Ladies’ Card” (陽光伊人卡) for our female customers and “Sunshine Auto Card” (陽光行車卡) specifically designed for automobile owners.

Credit Card Services

Our credit card business has grown rapidly since 2010. As of December 31, 2010, 2011 and 2012 and June 30, 2013, the accumulated number of our issued credit cards was approximately 8.6 million, 11.1 million, 14.6 million and 16.3 million, respectively, representing a CAGR of 30.3% from 2010 to 2012. For the year ended and as of December 31, 2012, the transaction volume and overdraft balance of our credit cards amounted to RMB306.7 billion and RMB69.6 billion, respectively. For the six months ended and as of June 30, 2013, the transaction volume and overdraft balance of our credit cards amounted to RMB257.3 billion and RMB89.5 billion, respectively. According to data in the Overall Operation of Payment System in 2012 issued by the PBOC, the market share of the credit cards issued by us exceeded 4% by the end of 2012.

BUSINESS

Along with growth in scale, we seek constantly to optimize the customer structure and work to increase significantly the profitability of our credit card business. For the year ended December 31, 2012 and the six months ended June 30, 2013, the contributions from our customers holding a Gold Card and above to our total credit card transaction volume was 80.7% and 82.6%, respectively. For the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, the contributions from customers holding a Titanium Card and above to our total credit card transaction volume was 34.7%, 36.9%, 62.1% and 66.1%, respectively, showing the continuous improvement in our customer mix and the success of our mid- to high-end customer strategy. As of June 30, 2013, the number of our high-end customers holding a Titanium Card and above accounted for 11.1% of our total credit card customers.

We have successfully launched dozens of innovative products. For example, we were the first PRC commercial bank to issue the Visa Infinite Card in China, and we believe we were one of the first to launch the UnionPay Platinum Credit Card, mobile phone dynamic password authentication and interest-free installment functions. We believe we were also the first to issue a combined debit and credit card, which combines the debit account and credit account of a customer into one. At the same time, some of our credit card products integrate traditional Chinese cultural elements. For instance, our classical “Fortune Card” (福卡) features the Chinese character “Fortune” (福) in Emperor Kangxi’s calligraphy on its front and has been very popular with our customers due to its Chinese element. As of June 30, 2013, we had issued over 6.2 million Fortune Cards. Additionally, we successfully launched the “Lehuijin” (樂惠金) card product, which focuses on consumer finance and satisfies customer demands for short terms, revolving credit with higher credit limits. Additionally, in 2011, we believe we were one of the first banks whose credit card center was accredited by the CBRC and received both the ISO9001 quality management system certification and the ISO27001 information security management system certification.

In 2013, we implemented a series of new services and developments, including an instant approval service for short term lines of credit. By adopting a scientific approach, we were able to identify high-end customers, which has resulted in greater cost efficiency and profitability. Additionally, we implemented a computerized processing system for our sales, issuance of credit cards, credit approvals and collections activities to reduce both processing times and costs.

We have received a number of awards in relation to the achievements of our credit card products, including:

- In 2009, our Sina Music Credit Card won the “Elan Award – The Best Secure Financial Card Design Award” (伊蘭獎 – 最佳安全金融卡設計獎). This award was presented by the International Card Manufacturers Association. This was the first time a Chinese card-issuing enterprise won the award since the Elan Awards came into existence 23 years ago (at the time of the award).
- Our combined debit and credit card was awarded “Best User Experience” (最佳用戶體驗信用卡) during the 2010 China Credit Card Summit (2010中國信用卡高峰論壇) (Tencent.com credit card evaluation report session) organized by Tencent.com and other organizations.
- We won the “2010 Financial Innovation Award for Individuals” (2010年度個人金融創新獎) and “2010 Award for Credit Card with Potential Growth” (2010年度信用卡潛力獎) during 2010 Netease Golden Diamond Awards session (2010年網易金鑽獎評選) organized by Netease.
- We won the “2010 Top Credit Card Center Award of the Year” (2010年度最佳信用卡中心獎) in the Fifth Annual Brand Recognition Competition (第五屆金字招牌評比) sponsored by *Beijing News* (《新京報》).
- Our credit cards won the “Best Brand Value Award” (最佳品牌價值獎) and our “Fortune Card” (福卡) won the “Most Popular Credit Card among the General Public” title (最受老百姓喜愛信用卡) in the 2011 Financial League Table (2011融尊榜) hosted by the *Digital Business Times* (《數字商業時代》).

BUSINESS

- We received the “Outstanding Banking Card Award” (卓越銀行卡獎) in both the Wise Money 2011 Financial Wealth Management League Table for our “Fortune Card” (福卡) and the 2010 Wise Money Financial Wealth Management League Table for our “Sunshine combined debit and credit card” (陽光存貸合一卡) published by *Wise Money* magazine (《卓越理財》).

Retail Deposits

We offer demand deposits and time deposits denominated in Renminbi and foreign currencies to our retail banking customers. Personal demand deposits include general demand deposits and flexible-term deposits. Personal time deposits consist of general time deposits, call deposits and education savings deposits, as well as deposits by installments and withdrawals in lump sums, deposits in lump sums and withdrawals by installments and time deposits with periodic interest payments that can be withdrawn on demand. We currently offer regular time deposit products with terms ranging from three months to five years for RMB-denominated deposits and longer than one month for foreign currency-denominated deposits.

Our retail deposits (including retail structured deposits and retail pledged deposits) amounted to RMB166,415 million, RMB235,510 million, RMB314,013 million and RMB364,232 million as of December 31, 2010, 2011 and 2012 and June 30, 2013, respectively, accounting for 15.7%, 19.2%, 22.0% and 23.4% of our total deposits from customers as of the same dates. Retail deposits (including retail structured deposits and retail pledged deposits) grew by a CAGR of 37.4% from 2010 to 2012.

Fee- and Commission-based Products and Services

We offer our retail banking customers a wide range of fee- and commission-based products and services, such as personal wealth management, bancassurance, brokerage, fund agency services, securities agency services, remittance, international travel financial services and agency trading of gold. For the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, our net fee and commission income relating to our retail banking business amounted to RMB2,129 million, RMB3,267 million, RMB5,419 million and RMB4,613 million, respectively, representing a CAGR of 59.5% from 2010 to 2012.

Personal Wealth Management Services

We believe we are one of the first banks that has been authorized by PRC regulators to provide Renminbi wealth management services. We believe that we have developed very strong brand recognition in the market under our brand name “Sunshine Wealth Management” (陽光理財) for the breadth, depth and quality of our personal wealth management products and services. We offer a comprehensive portfolio of personal wealth management products, including fixed income products, stock investment products, bond investment products, fund products, insurance products, QDIIs and other structured products and financial advisory services. For the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, our net fee and commission income relating to our personal wealth management services amounted to RMB854 million, RMB968 million, RMB1,461 million and RMB1,071 million, respectively, representing a CAGR of 30.8% from 2010 to 2012.

As of June 30, 2013, we had approximately 1.3 million “Sunshine Wealth Management” (陽光理財) customers, with a CAGR of 30.0% from 2010 to 2012. Our total retail AUM contributed by high-end customers with an AUM amount of more than RMB500,000 grew from 52.4% as of December 31, 2010 to 65.5% as of June 30, 2013.

BUSINESS

Our “Everbright Wealth Management” (陽光財富) brand was awarded “2011 Best Wealth Management Brand for Banks” (2011中國最佳銀行財富管理品牌) at the “2011 Chinese Retail Banking Summit” (2011中國零售銀行峰會) and “The 4th Award Ceremony for the Most Respected Chinese Banks and the Best Retail Banks” (“第四屆中國最受尊敬銀行暨最佳零售銀行頒獎典禮) organized by *Moneyweek* magazine (《理財週報》). In the 2012 Bankers Annual Conference organized by Sohu.com, we were awarded the “2011 Most Trustworthy Client Wealth Management Brand Award” (2011年度用戶最信賴銀行理財品牌獎). In November 2012, we were awarded “2012 The Best Bank Brand for Wealth Management” (2012中國最佳銀行財富管理品牌) at the 2012 Retail Banks Annual Conference of China organized by *Moneyweek* magazine (《理財週報》). In January 2013, our retail banking department received the “Outstanding Bank Innovative Wealth Management Team Award” (卓越銀行創新理財團隊獎) in The Wise Money 2012 Financial Wealth Management League Table published by *Wise Money* magazine (《卓越理財》), and our “Xin Gu Tong” (新股通) product was awarded “The Best RMB Wealth Management Product” (最佳人民幣理財產品) and we were awarded “2012 The Best Wealth Management Brand of China” (2012年中國年度最佳理財品牌), both at The Fifth Session of the “Golden Wealth Management Awards” (金理財獎) Ceremony held by *Shanghai Securities News* (《上海證券報》). See “Business – Awards, Recognitions and Honors.”

Bancassurance

We distribute insurance policies as an agent for certain insurance companies. As of June 30, 2013, we had entered into comprehensive cooperative agreements with 29 insurance companies as an agent for their insurance products. For the year ended December 31, 2012 and the six months ended June 30, 2013, we distributed insurance products with a total transaction volume of approximately RMB1,584 million and RMB969 million, respectively, and we received total fee and commission income from our bancassurance business of RMB135 million and RMB62 million, respectively.

Third-party Depository Customers

As of June 30, 2013, we had entered into third-party depository agreements with 80 brokerage companies. As of the same date, we had approximately 892,300 third-party depository customers.

Fund Agency Services

We act as an agent for the issuance and trading of fund products and provide fund transfer services between securities companies and customers who maintain trading accounts with us. As of June 30, 2013, we had distributed 572 funds as an agent and established business relationships with over 40 domestic funds in China. For the year ended December 31, 2012 and the six months ended June 30, 2013, we distributed fund products with a total transaction volume of approximately RMB11.6 billion and RMB4,661 million, respectively, and received fee and commission income of approximately RMB50.3 million and RMB21.9 million, respectively.

International Travel Financial Services

As a financial institution recognized by the embassies of various countries, including the United Kingdom, Ireland, Australia and Singapore, we provide one-stop professional international travel financial services. We have introduced more than 20 types of products to cover the financial needs of our customers for travel, overseas study and emigration under our “Everbright International Travel” (光大出國通) brand. At the Fourth International Education Service Industry Summit held in December 2010, we were awarded the “Best Provider of International Travel Financial Services Award” (最佳出國金融服務機構獎) by virtue of our prominent strength in delivering innovative financial service products relating to overseas study.

BUSINESS

Agency Trading of Gold

We act as an agent for our customers to trade gold at our branches. In 2009, we started to operate gold trading platforms for our retail banking customers. As a member in the financial category of the Shanghai Gold Exchange, we developed a brokerage system to accept individual customer orders to trade on the Shanghai Gold Exchange. As of June 30, 2013, we had approximately 210,000 gold customers. For the year ended December 31, 2012 and the six months ended June 30, 2013, our transaction volume and our transaction volume as an agent for third parties for gold was approximately 25,399 kilograms and 51,161 kilograms, respectively, with an aggregate trade value of approximately RMB8.6 billion and RMB15.0 billion, respectively. In May 2013, our “Yang Guang Dian Jin Tong” (陽光點金通) product was awarded the “Top Ten Financial Innovative Product” award at a competition jointly organized by *The Chinese Banker* magazine (《銀行家》) and the Chinese Academy of Social Sciences.

Marketing

Our Head Office formulates the overall marketing strategies, guidelines and standards for promoting our retail banking products and services. Our branches formulate specific marketing plans in accordance with instructions from our Head Office and tailor such plans to specific regions, customer preferences and market conditions. Our customer relationship managers implement the marketing strategies and plans through various marketing channels. As of June 30, 2013, we had a total of 7,190 retail banking customer relationship managers and marketing staff.

We market our retail products and services to our customers through physical and electronic channels. Our branches and sub-branches are strategically located in regions where we believe our key target customers are located. We also emphasize the importance of internet banking and mobile banking for our retail banking business.

We categorize our customers into ordinary customers and mid- to high-end customers. Our marketing efforts in relation to ordinary customers are primarily based on reaching out to customers by our on-site customer relationship managers, presentations given at our branches and general media advertisements. For our mid- to high-end customers, we have introduced customized financial products and value-added services tailored to our customers’ individual risk appetites, financial goals and service preferences.

We emphasize the importance of synergies between our corporate and retail banking businesses as well as synergies among different business lines of retail banking. We also promote cross-selling among different business lines and segments. For example, we emphasize the development of retail banking businesses such as payroll services for our corporate banking customers and promote our credit cards and wealth management products to eligible retail banking customers. Our branches are required to prepare their own working plans to incentivize cross-selling. We have adopted measures to motivate our staff to participate in marketing initiatives and we have provided regular training to our sales force.

Treasury Operations

Our treasury operations consist primarily of (i) money market activities, (ii) investment portfolio management, and (iii) treasury transactions on behalf of customers. In conducting our treasury operations, we seek to ensure our liquidity and achieve a balance between returns and risks on our investment portfolio, taking into consideration the market and macroeconomic conditions. For the year ended December 31, 2012 and the six months ended June 30, 2013, operating income from our treasury operations was RMB3,452 million and RMB2,615 million, respectively, representing 5.7% and 7.7%, respectively, of our total operating income for the same periods.

BUSINESS

Money Market Activities

Our money market activities primarily consist of (i) short-term inter-bank placements with other domestic banks, foreign invested banks and non-bank financial institutions through the inter-bank money market, (ii) repurchase and reverse repurchase transactions through the inter-bank money market and (iii) short-term placements in foreign currencies, debt repurchases in foreign currencies, foreign exchange swaps and other money market activities in the international financial market.

We are an active participant in money market activities and are one of the 16 banks approved by the PBOC to engage in SHIBOR quoting. As one of the SHIBOR-quoting banks, we provide daily quotes according to our own liquidity and capital supply and demand.

Investment Portfolio Management

We classify our investment portfolio into (i) debt securities, (ii) equity instruments, (iii) fixed-rate mortgages and (iv) debt securities classified as receivables. As of December 31, 2012 and June 30, 2013, the net book value of our investment portfolio was RMB478,384 million and RMB574,569 million, respectively. As of December 31, 2012, the balances of our debt securities, equity instruments, fixed-rate mortgages and debt securities classified as receivables stood at RMB216,997 million, RMB100 million, RMB369 million and RMB261,207 million, respectively, which accounted for 45.4%, 0.0%, 0.1% and 54.5% of our total investment portfolio. As of June 30, 2013, the balances of our debt securities, equity instruments, fixed-rate mortgages and debt securities classified as receivables amounted to RMB224,085 million, RMB100 million, RMB306 million and RMB350,334 million, respectively, accounting for 39.0%, 0.0%, 0.1% and 60.9% of our total investment portfolio. The purpose of our investments in debt securities classified as receivables, which were the largest component of our investments as of each of the above dates, is to diversify our investment channels and enhance our profitability. We plan to steadily increase our investments in such products going forward, as permitted by our risk management policies regarding credit and market risk and within the framework established by regulatory policies.

Proprietary Trading Activities

We purchase and sell various debt securities and bills for trading purposes, from which we seek to obtain short-term profits. We primarily trade debt securities issued by the PRC government and PRC policy banks, PBOC bills, short-term commercial paper, medium-term notes and other credit related debt instruments. We employ strict stop-loss and other limits for such trading transactions. We also trade a limited number of financial derivatives, including interest rate swaps and foreign currency forward contracts and swaps, mainly to perform market making functions in line with regulatory requirements and increase our fund operation profits.

Proprietary Investment Activities

We seek to achieve a target return on our investment portfolio through our evaluation of interest rates, exchange rates, credit, liquidity, macroeconomic trends and other risks associated with investment. In the domestic market, we primarily invest in debt securities issued by the PRC government, PBOC bills, debt securities issued by the policy banks and debt securities issued by other financial institutions and non-financial institutions. We also hold a limited number of derivative financial instruments, including interest rate swaps, foreign exchange forward contracts and swaps, to hedge against our investment risks. In the international market, we invest in investment-grade foreign currency debt securities issued by foreign governments, financial institutions, corporations and international organizations.

Treasury Transactions on Behalf of Customers

We also engage in treasury transactions on behalf of our corporate and retail banking customers, primarily comprising Renminbi and foreign currency derivatives, agency debt settlement and foreign currency trading and settlement services. In conducting these transactions, we generally conduct back-to-back transactions to hedge against our risk exposure.

Electronic Banking

We provide a broad array of electronic banking services including mobile banking, internet banking, phone banking and self-service banking. As of June 30, 2013, we had approximately 10.7 million electronic banking customers, representing a significant increase of 113.4% from December 31, 2011. For the six months ended June 30, 2013, we completed approximately 450 million electronic transactions, accounting for 88% of our total number of transactions, with a total transaction volume of approximately RMB12,700 billion. In 2012, we established 15 Sunshine E-series (陽光 e系列) platforms and created a uniform wealth management platform including websites, online banking, mobile phones and network messaging. Along with our effort to elevate our electronic banking business to a front-office function in 2012, we improved the effectiveness of our product sales through electronic channels and have achieved a remarkable growth in our income. Measurable income generated from electronic channels amounted to RMB1.04 billion and RMB950 million in 2012 and in the six months ended June 30, 2013, respectively.

Our electronic banking services have successively obtained special awards in selection campaigns sponsored by third parties. At the 2010 Chinese Online Banking Annual Conference (2010年中國網上銀行年會) organized by the China Financial Certification Authority (中國金融認證中心), we won the “Best Customer Experience Award” (最佳客戶體驗獎). Our internet banking service won the “2011 Best Enterprise Website Silver Award” (2011年度最佳企業網銀獎) in the 9th China Financial and Economic Heroes Campaign (第九屆中國財經風雲榜) held by hexun.com. We won the “2011 Best Chinese Internet Banking Customer Experience Award” (2011年中國網上銀行最佳客戶體驗獎) in the “2011 Chinese Electronic Banking Annual Conference” (2011中國電子銀行年會) jointly organized by China Financial Certification Authority (中國金融認證中心) and approximately 40 member banks. In 2011, we were awarded “Best Electronic Banking” (最佳電子銀行) in the “Chinese Financial Institution Golden Medal List – the Golden Dragon Prize” (中國金融機構金牌榜“金龍獎”) jointly organized by China’s *Financial News* (《金融時報》) and the Institute of Finance and Banking of the Chinese Academy of Social Sciences (中國社會科學院金融研究所). In October 2012, we were awarded “2012 Innovative Banks Ranking – Best Electronic Bank” (2012年度創新銀行榜 – 最佳電子銀行) at the Chinese Banking Industry Summit Forum (中國銀行業高峰論壇) organized by *Global Entrepreneur* magazine (《環球企業家》). In the same month, we were awarded the “Most Innovative Service and Best User Experience Award” (最佳創新服務用戶體驗獎) at The 2012 China Fifth Electronic Banking Summit Forum (2012年第五屆中國電子銀行高峰論壇) hosted by hexun.com (和訊網). In December 2012, we were awarded the “2012 Electronic Banking Services Award of the Year” (2012年度電子銀行服務獎) at “The 2012 Asian Banks Competitive Rankings Report” Release Ceremony held during the Seventh 21st Century Annual Finance Summit of Asia, hosted by *21st Century Business Herald* (《21世紀經濟報道》). Also in December 2012, we were awarded Best Electronic Banking (最佳電子銀行) at an award event jointly organized by China’s *Financial News* (《金融時報》) and the Institute of Finance and Banking of the Chinese Academy of Social Sciences. Finally, in January 2013, we were awarded the “Most Trustworthy Online Banking Payment Brand by Internet User Award” (網民最信賴網銀支付品牌獎) at the “First Electronic Payment Development Seminar” (首屆電子支付發展研討會) held by Xinhuanet and China Financial Certification Authority.

Mobile Banking

Our mobile banking services include account inquiries, money transfer and remittance, fee payment and credit card repayment, allowing our customers with mobile phones to access convenient and customized banking services. As of June 30, 2013, we had approximately 5.3 million retail customers using our mobile banking services. The total transaction volume for our mobile banking business was RMB54,400 million and RMB105,300 million, respectively, for the year ended December 31, 2012 and for the six months ended June 30, 2013.

Internet Banking

Our internet banking platform, www.cebbank.com, consists of both corporate internet banking and retail internet banking systems. Our corporate internet banking products and services include account inquiries, account management, money transfers and remittance, group treasury services, loans, foreign currency business, investment, treasury services and cash management. Our retail internet banking products and services include retail account management, money transfers and remittance, fee payment, investment and wealth management, credit cards and retail loans.

We continually seek to improve the security of our internet banking system and have implemented various measures for strengthening the system and end-user security, including use of third-party digital certification, security tokens and short message service (SMS) based dynamic password and identity verification services and sending short message service (SMS) notices to our customers in relation to changes in their accounts.

As of June 30, 2013, we had approximately 209,000 corporate internet banking customers and approximately 8.6 million retail internet banking customers. For the year ended December 31, 2012, the total transaction volume for our corporate and retail internet banking was RMB13,915.6 billion and RMB2,896.1 billion, respectively, and the total transaction volume for our internet banking was RMB16,811.7 billion. For the six months ended June 30, 2013, the total transaction volume for our corporate and retail internet banking was RMB9,893.1 billion and RMB2,668.1 billion, respectively, and the total transaction volume for our internet banking was RMB12,561.2 billion.

Phone Banking

We offer phone banking services through our customer service number “95595” 24 hours a day, seven days a week. The phone banking service hotline includes both automated and staffed services and can be accessed throughout China. Our phone banking services include account management, information inquiries, money transfers and remittance, bill payment, investment and wealth management and retail loans. For the year ended December 31, 2012 and the six months ended June 30, 2013, approximately 9.8 million and 11.4 million customers, respectively, had used our phone banking services. The total transaction volume for our phone banking business was RMB4,050 million and RMB2,230 million, respectively, for the year ended December 31, 2012 and the six months ended June 30, 2013.

Self-service Banking

We believe our self-service banking platform provides convenient and efficient services to our customers and reduces our operating expenses. As of June 30, 2013, we had 1,156 self-service banking centers, 3,821 ATMs and 2,060 CRSs. For the six months ended June 30, 2013, the total value of all transactions conducted through our self-service banking platform was RMB77,793 million, representing an increase of RMB19,201 million from the six months ended June 30, 2012.

BUSINESS

PRODUCTS AND SERVICES PRICING POLICY

The interest rates we charge on our RMB-denominated loans are generally regulated by the PBOC. For RMB-denominated corporate loans and retail loans (other than residential mortgage loans), there has been no lower limit on the interest rate since July 20, 2013 and no upper limit since October 29, 2004. See “Supervision and Regulation – PRC Banking Supervision and Regulation – Pricing of Products and Services – Interest Rates for Loans and Deposits.” Interest rates for foreign currency-denominated loans are generally not subject to PRC regulatory restrictions, and we are permitted to negotiate the interest rates with customers on such loans.

Interest rates for our RMB-denominated demand and time deposits cannot be higher than 110% of the applicable PBOC benchmark interest rate. However, we are permitted to provide negotiated time deposits to insurance companies and the SSF under certain circumstances. We are also permitted to negotiate the interest rates on foreign currency deposits other than those denominated in U.S. dollars, Euros, Japanese Yen and HK dollars in an amount less than US\$3 million or the equivalent. See “Supervision and Regulation – PRC Banking Supervision and Regulation – Pricing of Products and Services – Interest Rates for Loans and Deposits.”

With respect to fee- and commission-based business, certain services are subject to government guideline prices, such as basic Renminbi settlement services specified by the CBRC and the NDRC. See “Supervision and Regulation – PRC Banking Supervision and Regulation – Pricing of Products and Services – Pricing for Fee- and Commission-based Products and Services.”

In compliance with applicable regulatory requirements, we price our products based on criteria including the risk profile of our assets, an individual customer’s contribution to our business, our costs, the expected risk- and cost-adjusted returns and our internal fund pricing benchmarks. In addition, we consider general market conditions and market prices for similar products as well as services offered by our competitors.

DISTRIBUTION CHANNELS

We provide our customers with services through our multi-channel distribution network. As of June 30, 2013, our distribution network consisted of 807 branch outlets nationwide, complemented by various electronic banking channels. For more information on our electronic banking channels, see “– Our Principal Businesses – Electronic Banking”.

As of June 30, 2013, we had 807 branch outlets, including our Head Office, 37 tier-one branches, 42 tier-two branches and 727 other network outlets (including one Hong Kong branch). Our Head Office is responsible for the overall decision-making and management of our Bank. Our tier-one branches are generally located in the capital cities of provinces, autonomous regions or municipalities and certain other strategically important cities, while our tier-two branches are located in other cities within China’s provinces and autonomous regions. The tier-two branches report to the tier-one branches in their respective region and are able to establish lower-tier network outlets in the same city.

Our branch network covers a large portion of the economically more developed areas in China. As of June 30, 2013, we had 161, 144 and 146 branch outlets in the Bohai Rim, the Yangtze River Delta and the Pearl River Delta, respectively.

BUSINESS

The following table sets forth, for the dates indicated, the number of our domestic branch outlets by geographical region:

Regions	As of December 31,						As of June 30,	
	2010		2011		2012		2013	
	Number	% of total	Number	% of total	Number	% of total	Number	% of total
Bohai Rim ⁽¹⁾	128	21.1%	142	20.6%	155	20.0%	161	20.0%
Yangtze River Delta...	116	19.1	129	18.7	139	17.9	144	17.9
Pearl River Delta	114	18.8	128	18.6	142	18.3	146	18.1
Central China	96	15.9	116	16.8	138	17.8	144	17.9
Western China	79	13.0	92	13.3	112	14.5	118	14.6
Northeastern China.....	73	12.1	83	12.0	89	11.5	93	11.5
Total	606	100.0%	690	100.0%	775	100.0%	806⁽²⁾	100.0%

Notes:

- (1) Includes our Head Office.
- (2) Does not include one Hong Kong branch.

INFORMATION TECHNOLOGY

We consider information technology to be one of the driving forces of our development. We have constructed a multi-level structure of information technology systems covering all aspects of our business operations, including channel management, customer management, product management, transaction processing, financial management, risk management, decision-making support and sharing support. Substantially all of our business transactions are processed and maintained by our information technology system. We believe that our advanced information technology system has greatly improved, and will continue to improve, our efficiency, the quality of our customer service and our risk and financial management capabilities.

We have established a Technology Strategy and Information Management Committee responsible for making important decisions on strategies, planning, standards, information security system and budgets for technology development throughout our Bank. Information technology departments have been established at both Head Office and branch levels. Our Head Office's experienced information technology team mainly consists of technical staff who have extensive working experience. We plan to increase gradually the number of technical personnel in the coming years. As of June 30, 2013, we had 740 employees with information technology-related responsibilities.

We completed the consolidation of our bank-wide integrated counter systems in 2002 in order to have all of our key businesses and service systems operate under the centralized management of our Head Office. In 2005, we completed an overall upgrade of our core business systems, accounting system and risk management system. We continue to improve an enterprise-level data warehouse (EDW), which provides information for both our internal analysis and external reporting purposes. The EDW currently consolidates data from more than 40 systems at our Bank which enables us to conduct bank-wide data analysis and exchange, allowing us to conduct more advanced analysis of clients' needs, risk management and product design. From 2006 to 2013, in accordance with our technology strategy, our information technology application system made significant progress and effectively supported the rapid growth and expansion of our business.

We have adopted a series of measures to enhance the levels of information technology system operations and management, including: (i) establishing two same-city mutual backup data centers in Beijing, continually improving the same-city disaster recovery system in respect of servers, storage, networks and engine room facilities and enhancing the capability of the information technology system to resist disasters; (ii) strengthening the network security management, enhancing the security of network operation by means of firewalls, intrusion detection system (IDS), logical partition, physical partition, redundant backup of equipment and wiring and strengthening the centralized administration of networks by building up a bank-wide unified network administration platform and a data volume monitoring platform; (iii) implementing an information technology service management (ITSM) project, strengthening system monitoring and warning, regulating incident management, account change management, configuration management and other day-to-day operational work and lowering the risks associated with information system maintenance and operation; (iv) based on the infrastructure of two data centers within the same city, formulating corresponding disaster recovery plans and regularly carrying out recovery practice drills; and (v) establishing a uniform Head Office platform for centralized management of the system daily log book, enhancing the warning capability of the system and providing a measure for audit monitoring. Since the establishment of our Bank, we have not suffered any major information technology system failures or related losses.

We construct our bank-wide information security system in light of our actual needs and by reference to international standards and norms. Our Technology Strategy and Information Management Committee sets our overall information security development strategies and plans in light of the policies and requirements of the PRC government and regulators. We have adopted a variety of security measures to enhance the security of our information technology system and the reliability of our operations, including advanced firewall technologies, hacker detection systems, network monitoring and other safeguards and systems.

We outsource some applications and information technology functions to independent third parties. Our outsourced IT functions include, among others, our office computer maintenance staff, the cooperative development of our application systems and independent assessment. We select suitably qualified outsourcing companies through a bidding process. Generally, we enter into service contracts with outsourcing companies and then manage and supervise their daily operations. In addition, we carry out inspections to assess their overall service quality every three months and the service quality of their main service personnel every six months. We conduct strict scrutiny of such third parties when we procure information technology support from outside sources. In order to reduce the risks associated with the outsourcing, we monitor the whole outsourcing process, including project proposal, selection of contractors, negotiation and execution of contracts, daily management, appraisal, inspection for acceptance. In addition, we focus on the continued improvement of our technological capabilities throughout the outsourcing process, as well as the transfer of information.

In March 2012, we received Capability Maturity Model Integration (CMMI)-ML3 certification for our information technology system, which attests to its increased development capabilities and standardization. Such certification will enhance our research and development capabilities and ability to utilize the system to support our sustainable growth. In March 2012, we set up an innovation center to promote technological service and management innovations. We have collected over 100 new technological concepts over the past year, launching a number of innovative products and services, including ETC co-branded cards, micro-enterprise cash management, Wealth Management Night Market/Morning Market, equity custody and our “An Xin Bao” (安心寶) software, which have created positive results and value for our business.

BUSINESS

COMPETITION

We face significant competition in our principal areas of business from other commercial banks and other financial institutions in China. We currently compete primarily with Large Commercial Banks and other National Joint Stock Commercial Banks. We also face increasing competition from other financial institutions, including city commercial banks and foreign banks operating in China. Our competition with other commercial banks and financial institutions in China primarily focuses on the variety, pricing and quality of products and services, convenience of banking facilities, coverage of distribution network and brand recognition, as well as information technology capabilities. Furthermore, we face competition in the provision of financial services to our customers from non-banking institutions such as securities firms and insurance companies.

Our competition with foreign-invested financial institutions will likely intensify in the future. In 2006, pursuant to its WTO commitment, the PRC government eliminated measures restricting the geographical presence, customer base and operational licenses of foreign-invested banks operating in China. In addition, China's Closer Economic Partnership Arrangement with Hong Kong and Macau and the subsequent supplemental agreements, as well as the Cross-Straits Economic Cooperation Framework Agreement, allow banks from Hong Kong, Macau and Taiwan to conduct certain business in the PRC, which has also increased competition in the PRC banking industry.

See "Risk Factors – Risks Relating to the Banking Industry in China – We face intense competition in China's banking industry as well as competition from alternative corporate financing and investment channels" and "Financial Information – General Factors Affecting Our Results of Operations – The Competitive Landscape in the PRC Banking Industry."

In response to this competitive environment, we intend to continue to implement our strategies to differentiate us from our competitors and to enable us to continue to compete effectively in the PRC commercial banking industry.

EMPLOYEES

As of June 30, 2013, our employees included 29,138 contract workers and 4,371 independent contract workers. The total number of our employees comprises 6,111 employees at our Head Office, including 845 employees at the base, 368 employees at the information technology department, 1,446 employees at the electronic banking department and 3,452 employees at the credit card center. In addition, there were 27,398 employees at our branches and sub-branches as of the same date.

The following table sets forth the total number of our employees by function as of June 30, 2013

	As of June 30, 2013	
	Number	% of total
Management	307	0.9%
Corporate banking	6,504	19.4
Retail banking (other than credit card business)	7,881	23.5
Credit card	3,485	10.4
Treasury operations (Head Office)	37	0.1
Planning and finance	497	1.5
Operation and support	8,961	26.7
Risk management, internal audit and legal and compliance	1,657	4.9
Information technology	740	2.2
Electronic banking.....	1,540	4.6
Others ⁽¹⁾	1,900	5.7
Total	33,509	100.0%

Note:

(1) Consist primarily of administrative and supporting departments.

BUSINESS

The following table sets forth the total number of our employees by age as of June 30, 2013:

	As of June 30, 2013	
	Number	% of total
Under 30	18,483	55.2%
30 to 40.....	9,754	29.1
over 40.....	5,272	15.7
Total	33,509	100.0%

The following table sets forth the total number of our employees by education level as of June 30, 2013:

	As of June 30, 2013	
	Number	% of total
Master's degree and above.....	3,540	10.6%
Bachelor's degree.....	21,541	64.3
Associate degree and below	8,428	25.2
Total	33,509	100.0%

We contribute to our employees' social insurance, provident housing fund and certain other employee benefits in accordance with PRC laws and regulations. We have established a performance-based compensation system whereby an employee's compensation is determined based on his/her position and performance review. In addition, we provide training programs to our employees to improve their professional competence and skills.

We provide our employees with training sessions on various topics, such as the international economic environment, globalization of and competition in the finance industry, environmental-friendly finance, low-carbon economics, sustainable development, high-performance team building, banking industry innovation and service, detailed management, model-based operations, project management, corporate culture, bank development strategy, legal compliance, risk management, retail banking business, corporate banking business, financial compliance, information disclosure, electronic banking business and human resources management.

Our labor union represents the interests of the employees and works closely with our management on labor-related issues. We have not experienced any strikes or other material labor disputes that have interfered with our operations, and we believe that the relationship between our management and the labor union has been, and remains, good.

As of June 30, 2013, we had also engaged 4,371 independent contract workers by signing contracting agreements with third-party human resources agencies. In accordance with the temporary supplemental or replaceable employment policy stipulated under the PRC Labour Contract Law (中華人民共和國勞動合同法), these independent contract workers generally hold non-key positions with us, such as credit card sales assistants, on-site managerial assistants and account managerial assistants. Such independent contract workers enter into labor contracts with the relevant third-party human resources agencies instead of with us. According to the contracting agreements with the third-party human resources agencies, we are obliged to make salary payments, social insurance contributions and other related payments for the independent contract workers by payment to the third-party human resources agencies in advance. The third-party human resources agencies are responsible for the payment of salaries to the independent contract workers and social insurance contributions for the independent contract workers to the relevant governmental

BUSINESS

authorities. According to the legal opinion of our PRC legal advisor, King & Wood Mallesons, although we are under no statutory obligation to make social insurance contributions in relation to these independent contract workers under PRC law, if the third-party human resources agencies fail to do so, we may be jointly liable for any claims brought by them. However, in such case we would be entitled to seek indemnification from the third-party human resources agencies.

PROPERTIES

Owned Properties

As of June 30, 2013, we held and occupied 707 properties in the PRC with an aggregate gross floor area of approximately 709,385.2 square meters.

The following table sets forth the breakdown of the 707 properties we held and occupied in the PRC by provinces and municipalities as of June 30, 2013:

Province/Municipality/Region	Number of Properties
Beijing	134
Shanghai	32
Tianjin	4
Chongqing	14
Hebei	4
Shanxi	2
Liaoning.....	21
Jilin.....	2
Heilongjiang	11
Jiangsu	67
Zhejiang.....	121
Anhui	52
Fujian.....	12
Shandong	15
Henan	6
Hubei	6
Hunan	4
Guangdong.....	140
Hainan	32
Sichuan	4
Yunnan.....	2
Shaanxi	6
Guangxi	16
Total	<u>707</u>

BUSINESS

In addition, as of June 30, 2013, we had entered into contracts to purchase 10 properties with an aggregate gross floor area of approximately 11,198.3 square meters.

The properties we held and occupied are mainly used as our business premises, with a range of gross floor area from approximately 12.6 square meters to 34,295.0 square meters.

As of June 30, 2013, among the 707 properties we held and occupied in the PRC, we had not obtained proper land use rights certificates and/or building ownership certificates for 144 properties with an aggregate gross floor area of approximately 91,818.6 square meters, representing approximately 12.9% of the aggregate gross floor area of the properties we held and occupied. Among these properties:

- We have obtained the building ownership certificates but without proper land use rights certificates for 92 properties with an aggregate gross floor area of approximately 25,033.1 square meters, representing approximately 3.5% of the aggregate gross floor area of the properties we held and occupied. We have been advised by King & Wood Mallesons, our PRC legal advisor, that we can legally occupy and use the above properties, but our rights to transfer, lease, mortgage or dispose of such properties are restricted unless we obtain the corresponding land use rights certificates. We currently have not entered any definitive agreements to transfer, lease, mortgage or dispose of these properties and, accordingly, we are not required to obtain the granted land use rights certificates in the near term. We are in the process of applying for the relevant land use rights certificates.
- We have not obtained the building ownership certificates and land use rights certificates for 52 properties with an aggregate gross floor area of approximately 66,785.5 square meters, representing approximately 9.4% of the aggregate gross floor area of the properties we held and occupied. While we are unable to ascertain when the relevant land and property management authorities will grant us the relevant title certificates, we are using commercially reasonable efforts to obtain the relevant title certificates for all such properties. In the event we are unable to obtain such title certificates and are required to relocate, we may incur additional relocation costs, which we believe would not have a material impact on our business or financial condition.

Our Directors believe that the above properties with defective titles are not crucial to, and will not have a material impact on our operations because (i) we have obtained valid building ownership rights and/or land use rights certificates for a majority of the properties we held and occupied, representing approximately 87.1% of the aggregate gross floor area of the properties we held and occupied; (ii) for the 92 properties with defective titles, we have been advised by our PRC legal advisor that we can legally occupy and use the properties and there is no legal impediment to our occupation and use of such properties, and therefore, there is no material impact on our business or financial condition; (iii) with respect to the remaining 52 properties with defective titles, if necessary, we would be able to replace such properties, if necessary, with comparable alternative buildings without any material adverse effect on our operations; and (iv) a majority of our branches are located on leased properties.

Leased Properties

As of June 30, 2013, we leased from an independent third party one office unit with a gross floor area of 1,003 square meters in Hong Kong to serve as our Hong Kong branch. As of June 30, 2013, we had leased 1,202 properties in the PRC with an aggregate area of approximately 815,695.9 square meters. Our leased properties are mainly used as our business premises, with an area ranging from approximately 4.0 square meters to 18,076.0 square meters.

BUSINESS

The following table sets forth the information relating to our total rental expenses and average monthly rental expenses for each of the periods indicated:

	For the year ended December 31,			For the six months ended
	2010	2011	2012	June 30, 2013
	(RMB in million)			
Total rental expenses	817	1,001	1,224	712
Average monthly rental expenses	68	83	102	119

For our leased properties in the PRC, as of June 30, 2013, we were not provided with the proper title certificates for 435 properties with an aggregate area of approximately 264,717.7 square meters, representing approximately 32.45% of the aggregate area of the our leased properties. Of these 435 properties, our landlords at 268 properties (approximately 20.35% of the aggregate area of our leased properties) had not agreed to indemnify us for any potential liabilities we would incur as a result of the title defects. However, we have been advised by our PRC legal advisor, King & Wood Mallesons, that we have the right to seek compensation from such lessors pursuant to the relevant lease agreements. We are of the view that most of these leased properties we occupy can, if necessary, be replaced by other comparable alternative premises without any material impact on our business or financial condition.


According to section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions), this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Hong Kong Companies Ordinance in relation to paragraph 34(2) of the Third Schedule to the Hong Kong Companies Ordinance, which require a valuation report with respect to all our interests in land or buildings, for the reason that as of June 30, 2013, the carrying amount of all the properties we held and occupied represented approximately 0.4% of the value of our total assets and the leased properties are considered to have no commercial value.

MAJOR INTANGIBLE ASSETS

Our intangible assets mainly include trademarks, patents, domain names, copyrights and non-patented technology. We conduct business under the “China Everbright Bank,” “CEB” and “中國光大銀行” brand names.

Trademarks

As of June 30, 2013, we held 28 registered trademarks in the PRC and 15 registration applications which have been accepted for consideration in the PRC. We also obtained two trademark registrations in Hong Kong.

On March 20, 2008, we entered into a trademark license agreement with China Everbright (Group), pursuant to which we were granted a license to use its “光大”, “Everbright” and “” trademarks for nil consideration. On December 29, 2009, China Everbright (Group) undertook to us that it would, in accordance with relevant provisions in the Trademark Law of the People’s Republic of China (《中華人民共和國商標法》), perform the renewal procedures with the trademark registration authorities in PRC in relation to the above three trademarks in due course before their expiration. After the renewal, on the condition of the full performance by our Bank of the said trademark license agreement entered into between the parties, China Everbright (Group) will continuously license our Bank to use these trademarks at nil consideration with no time limit being specified.

Domain Names

As of June 30, 2013, we had registered 128 domain names in the PRC.

CORPORATE SOCIAL RESPONSIBILITY

We actively promote and embrace our role as a corporate citizen and are committed to joint development with society. As part of our efforts to be socially responsible and give back to local communities, we have granted more loans to under-developed regions and increased our financing channels and services to SMEs and micro-enterprises. We have introduced a series of products, including “Sunshine Easy Loans” (陽光融易貸) and “Easy Settlement” (支付易) for small enterprises to promote the concept of green credit, and developed low-carbon financial services such as “Guang He Dong Li” (光合動力). We have also focused on promoting the electronization of financial services, by which we can reduce social comprehensive costs, such as customer visits and queuing in branches and carbon emissions.

We are committed to social services and support the “Water Cellar for Mothers” (母親水窖) project. We promote the co-development of employees and our Bank by nurturing a caring culture, providing protection for employee benefits, building a harmonious working atmosphere, furnishing opportunities for the employees and enriching the corporate culture.

Among others, we have received the following recent corporate social responsibility awards:

- June 2011 – Outstanding Charity Contribution Award (最佳公益慈善貢獻獎) at the Chinese Banking Industry Social Responsibility Report Release, Evaluation and Honoring & the First Industry Social Responsibility Round Table Meeting 2010 (2010年度中國銀行業社會責任報告發布、評比及表彰暨首屆行業社會責任圓桌會議) held by the China Banking Association;
- June 2011 – 2010 Pioneer of the Chinese Voluntary Emissions Reduction Enterprise (2010年度中國企業自願減排先鋒) in the list of Chinese Voluntary Emissions Reduction Enterprise (中國企業自願減排排行榜) released by the China Beijing Environment Exchange;
- December 2011 – Social Responsibility Award of Banking Industry (銀行業社會責任獎) at the 2011 Oriental Wealth Billboard (2011東方財富風雲榜); and
- June 2012 – 2011 Chinese Banking Industry Annual Social Responsibility Charity Contribution Award (2011年度中國銀行業社會責任最佳公益慈善貢獻獎) in the 2011 Corporate Social Responsibility Report released by the China Banking Association.

CORPORATE GOVERNANCE

We have established a corporate governance framework and system to meet the requirements of modern enterprise systems and developed an organizational structure, primarily comprising the general meeting of Shareholders, Board of Directors, Board of Supervisors and senior management. Our management system and rules of procedure are designed to ensure (i) the independent and effective checks and balance across our Bank, (ii) scientific and efficient decision-making and (iii) incentive and internal control mechanisms. We continually monitor changes in the rules, laws and regulations of China to strengthen our corporate governance framework. In July 2012, our Board of Directors was named one of the 2012 Best Boards of Directors of Chinese Listed Companies (2012年中國上市公司最佳董事會) at “The Third Session of the Top 100 Chinese Listed Companies with the Most Comprehensive Strengths” selection campaign (“第三屆中國上市公司綜合實力100強”評選). In September 2012, the Shanghai Stock Exchange honored our Board Secretary as one of the Top 10 Board Secretaries based on their evaluation of our corporate governance framework.

LEGAL AND REGULATORY

Licensing Requirements

As of the Latest Practicable Date, we had obtained all financial operating licenses required for conducting our current businesses.

Legal Proceedings

We are involved in certain legal proceedings in the ordinary course of our business. Most of these proceedings involve enforcement claims initiated by us to recover payments of our non-performing loans. The legal proceedings against us include actions relating to customer disputes and claims brought by our counterparties on contracts related to our banking operations.

As of June 30, 2013, we had 73 pending litigation and arbitration cases, each with a claim value of over RMB30 million, amounting to approximately RMB3,538.6 million and US\$20.1 million in aggregate. Of these 73 cases, we or our branch outlets were plaintiffs in 72 cases with an aggregate value of RMB3,347.5 million and US\$20.1 million. We or our branch outlets were defendants in one case with an aggregate value of approximately RMB191.1 million. We believe that we have made adequate provisions with respect to current and pending proceedings against us. As of June 30, 2013, our litigation provisions amounted to RMB17 million. See Note 39 to our consolidated financial statements in the Accountants' Report in Appendix I to this prospectus for the details of the provisions. We do not expect any of our current or pending legal or arbitration proceedings to have, individually or in the aggregate, a material adverse effect on our business, financial condition or results of operations, even if they are determined against us.

As of the Latest Practicable Date, none of our Directors, Supervisors or senior management was involved in any material litigation, arbitration or administrative proceeding.

Regulatory Reviews and Proceedings

We are subject to inspections and examinations by the relevant PRC regulatory authorities, including the PBOC, CBRC, MOF, CSRC, CIRC, SAIC, SAFE, NAO and SAT, as well as their respective local offices. These audits and examinations have previously resulted in findings of non-compliance issues and the incurrence of certain penalties. Although these issues and penalties did not have any material adverse effect on our business, financial condition and result of operations, we have implemented remedial and preventative measures to protect against the recurrence of such incidents.

Since January 1, 2010 and up to the Latest Practicable Date, save as disclosed in this prospectus, we have not violated any relevant rule or regulation in any material respect and have obtained all major licenses, approvals, permits and certificates from the appropriate regulatory authorities. We have also been advised by our PRC legal advisor, King & Wood Mallesons, that save as disclosed in this prospectus, our Bank has complied with the applicable PRC laws and regulations in all material respects and has obtained all major licenses, approvals, permits and certificates from the appropriate PRC regulatory authorities. See "Supervision and Regulation – PRC Banking Supervision and Regulation – Other Operational and Risk Management Ratios" and "Supervision and Regulation – PRC Banking Supervision and Regulation – Corporate Governance and Internal Control" for more information on our non-compliance.

BUSINESS

Administrative Proceedings

Certain regulatory inspections and examinations have resulted in our being subject to fines and penalties as a result of our non-compliance with regulatory requirements. From January 1, 2010 to June 30, 2013, we were subject to a total of 28 fines and penalties imposed by PRC regulatory authorities (excluding tax authorities – see below for details regarding tax penalties) with an aggregate value of RMB3,802,000, comprising:

- three fines and penalties totaling RMB500,000 imposed by the CBRC for, among other things, non-compliance with certain requirements regarding related party transactions, bill business, calculation of risk-weighted assets, credit scale management and approving credit card applications from ineligible applicants. The CBRC imposed a fine of RMB350,000 for our lack of prudence in granting approval of credit card applications, including the approval of credit card applications from applicants who were ineligible to apply for credit cards due to their age;
- eleven fines and penalties totaling RMB1,192,800 imposed by the PBOC for, among other things, failure to report certain large and suspicious transactions and non-compliance with certain settlement requirements and anti-money laundering requirements; and
- eleven fines and penalties totaling RMB2,066,000 imposed by SAFE for, among other things, non-compliance with regulations relating to foreign exchange business.

In addition to the above, aggregate tax penalties of approximately RMB2,504,962.3 (including late payment penalties) were imposed by the PRC tax authorities, including aggregate tax penalties of approximately RMB2,489,962.3, imposed by local tax bureaus for delayed payment of business tax, stamp duty and other taxes and aggregate tax penalties of approximately RMB15,000, imposed by the state tax bureau for failure to withhold individual income tax on behalf of our employees.

As of the Latest Practicable Date, we have paid all of the above administrative fines and penalties.

These penalties did not, individually or in the aggregate, have a material adverse effect on our business, financial condition or results of operations. We have taken, and will continue to take, the following key steps and measures to rectify the issues identified by the PRC regulatory authorities:

- regarding related party transactions: our financial restructuring has effectively resolved certain historical related transactions. At the same time, we have reduced the credit limit granted to related parties and strengthened the management of authorization for related party transactions;
- regarding our bills business: we have strengthened the process for the verification of the authenticity of trading backgrounds and the clearance and recovery of advances made in our bills business;
- regarding the calculation of risk-weighted assets: the relevant accounting work has been improved by clarifying the standards for calculating risk-weighted assets, perfecting risk management processes, strengthening the management of risk-weighted assets data collection and improving business training and systems development;
- regarding credit scale management: we have strengthened our implementation of regulators' directives on loan scale control;

BUSINESS

- regarding the approval of credit card applications from ineligible applicants: we have improved our credit card approval model, required our authorized credit card approval officers to strictly follow our approval requirements and procedures and strengthened the verification of the contents of the application documents;
- regarding anti-money laundering: we have established a system for reporting and submitting data on sizable and suspicious transactions and formulated relevant anti-money laundering procedures. In addition, we periodically provide anti-money laundering training to staff at different levels to raise awareness;
- regarding non-compliance in settlement: we have revised the relevant regulations and guidelines and further strengthened the supervision of the accounting and settlement business at the branch and sub-branch levels to mitigate operational risks;
- regarding non-compliance in foreign exchange business: we have studied and thoroughly implemented relevant national policies and applicable regulations and strengthened the supervision and inspection of non-compliance by staff and the enforcement of related disciplinary procedures;
- regarding non-compliance in financial matters: we have taken stringent financial disciplinary measures, recovered concealed deposits of funds and strengthened financial management;
- regarding our wealth management: we have standardized the marketing of our wealth management products and improved the standards and transparency of marketing materials for wealth management products;
- regarding tax non-compliance: we have strengthened training in tax law and regulation for our employees, carried out periodic self-inspection with respect to tax law compliance and promptly rectified tax issues found through such self-inspection; and
- regarding other non-compliance: we have conducted fire control examinations and verifications prior to and through the construction period. We have improved our internal control system, strengthened the monitoring and inspection of compliance with internal control requirements and continuously organized educational campaigns relating to compliance.

Through the above measures, we believe that we have taken appropriate actions to rectify the identified deficiencies.

Findings of Regulatory Examinations

Certain routine or ad hoc examinations or inspections conducted by the PRC regulatory authorities have revealed certain deficiencies or incidents of non-compliance in various areas of our business operations, risk management and internal controls. The results of the principal examinations or inspections are summarized below.

BUSINESS

CBRC

The CBRC conducts on-site and off-site inspections on us, including on-site inspections of our Head Office, branches and sub-branches. Based on these inspections, the CBRC issues inspection reports annually setting forth its findings and recommendations. In its inspection report in 2012, the CBRC acknowledged the accelerated growth of our assets, the optimization of our lending structure and the improvement in our operational efficiency. However, the report also pointed out certain deficiencies and gave us some recommendations. The key recommendations made by the CBRC in its report and our primary remedial measures adopted are set forth below:

<u>Key recommendations</u>	<u>Key remedial actions taken</u>
<p>Improving the effectiveness of corporate governance.</p> <ul style="list-style-type: none"> • Regulating the operation of the Board of Directors, the Board of Supervisors and each of the special committees. • Enhancing internal control. • Strengthening human resource management. • Improving capital management. 	<ul style="list-style-type: none"> • We have completed the re-election of the Board of Supervisors, and have been striving to regulate its operation. We have established and have been constantly improving our risk management organizational matrix under the guidance of our Board of Directors. • We have (i) improved process management for internal control; (ii) strengthened internal supervision over all levels of our institutions; (iii) increased the efficiency and effectiveness of our internal audit; and (iv) strengthened the control of ethical and operational risks among our staff. • We monitor and ensure that compulsory vacation policies are implemented in accordance with the regulatory requirements, and are gradually recruiting additional legal compliance and audit professionals. We have also clearly outlined our staff expansion plan and expected manpower demand in our strategic planning process. • We have developed a capital management sub-strategy with a strategic goal of “Strengthening Capital Planning and Management”, so as to further optimize our organizational structure and implementation mechanism for capital management and to improve the efficiency of capital utilization.
<p>Strengthening credit risk management.</p> <ul style="list-style-type: none"> • Deepening our reform on credit risk management. 	<ul style="list-style-type: none"> • We have established the Credit Management Department in our headquarter, which is mainly responsible for review and approval of new loans, post-extension management, risk warning, etc. Such a measure has been gradually implemented at our branches, so as to further enhance the expertise and independence of our credit risk management.

BUSINESS

Key recommendations	Key remedial actions taken
<ul style="list-style-type: none"> Enhance monitoring of credit asset quality. 	<ul style="list-style-type: none"> We have strengthened our monitoring of the control and resolution of non-performing loans. We have enhanced risk screening procedures in key areas and strengthened the collection and resolution of non-performing loans. Risk classification management and prudent provisioning policies were also emphasized, and accordingly provision has been raised for high-risk industries with excess capacity.
<ul style="list-style-type: none"> Strengthening credit risk management in key industries, regions and institutions. 	<ul style="list-style-type: none"> We regularly reviewed and improved our “Industry Management System for Corporate Loans” (對公信貸行業管理制度), implemented industry classification management, strengthened credit portfolio management and established a credit portfolio analysis and monitoring mechanism, and constantly improved the concentration detecting and controlling mechanism. In 2013, we officially kicked off the construction of our customer risk warning & management system (客戶風險預警管理系統).
<ul style="list-style-type: none"> Strengthening risk management in the key areas such as LGFVs and the real estate sector. 	<ul style="list-style-type: none"> We carried out on-site inspection on the customers from the LGFVs and the real estate sector. As for the LGFV loans, we strictly followed the “Guiding Opinions on Strengthening the Risk Control and Management of Loans to Local Financing Vehicles in 2013” (關於加強2013年地方政府融資平台貸款風險監管的指導意見) issued by the CBRC and continued to exercise strict control on the aggregate amount, and categorized our customers into three types: support, maintenance and exit, and took the appropriate measures based on these categorizations. As for the real estate development-related loans, we continued to limit our total amount on real estate lending and carry out list management.
<p>Reinforcing operational risk management.</p>	
<ul style="list-style-type: none"> Improving the environment for operational risk management, proactively exploring the establishment of an efficient operational risk management system. 	<ul style="list-style-type: none"> We strengthened the organizational functions for managing operational risks, tightened the process of reporting operational risk events and management of key indicators of operational risks.

BUSINESS

Key recommendations	Key remedial actions taken
<ul style="list-style-type: none"> Intensifying operational risk management during business processes. 	<ul style="list-style-type: none"> We have printed out and distributed the “Operational Guidance for Internal Reconciliation of China Everbright Bank” (中國光大銀行內部對賬操作辦法), which clearly defined the grounds and standardized the procedures for internal reconciliation, and emphasized reconciliation timeline. We have been constantly optimizing our business operation and have strengthened process monitoring.
<ul style="list-style-type: none"> Further strengthening operational risk control for foreign exchange business. 	<ul style="list-style-type: none"> We continued to improve the procedures for stop-loss limit management and the specific operational rules, strengthening control on the authorised limit for unilateral transactions.
<p>Strengthening liquidity risk and market risk management.</p>	<ul style="list-style-type: none"> We continued to pursue strict loan-to-deposit ratio real time planning, management and assessment. As of 30 June 2013, our loan-to-deposit ratio was 70.28%, which was in line with the relevant regulatory requirements. We have strengthened the management of maturity mismatch between market-based assets and liabilities as one of our key focuses, regularly monitored cash flow and established a reasonable liquidity reserve buffer. We have also increased the core liabilities ratio. As of 31 December 2012, our core liabilities ratio was 50.45%, 1.26 percent higher than the average of the National Joint Stock Commercial Banks. We have merged the market risk management team into the Risk Management Department, which exercises centralized control of our market-related risks.
<p>Strengthening management of off-balance sheet businesses and non-credit assets to prevent key business risks.</p>	<ul style="list-style-type: none"> We have strengthened the management of off-balance sheet credit assets, improved the accuracy of off-balance sheet assets classification and strengthened the provision management for off-balance sheet risks. We have strengthened the post-extension management for letters of guarantee as well as the risk management in the investments in income scheme related trusts and refined the system of debt hedging operations.

BUSINESS

Key recommendations	Key remedial actions taken
Strengthening construction and management of information technology and electronic channels.	
<ul style="list-style-type: none">Strengthening construction of the three defensive perimeters of information technology and the relative risk management.	<ul style="list-style-type: none">We improved the functionality of the information technology system in our branches through (i) developing a new information technology system framework, (ii) establishing a system catalogue for our branches and (iii) promoting a research and development system in our branches and constantly optimizing the testing management of the development projects of our branches.
<ul style="list-style-type: none">Strengthening construction and management of the electronic banking business.	<ul style="list-style-type: none">We have been constantly optimizing our principal business and management system, separating our intranet from the Internet physically and strengthened the management of IT project outsourcing, so as to prevent IT-related risks.
<ul style="list-style-type: none">Enhancing management of compliance risks and reputational risks.	<ul style="list-style-type: none">We have established a risk monitoring and warning platform for electronic banking transactions, strengthened systematic control over the verification section in the electronic banking business and completed the systematic functions of electronic banking.
	<ul style="list-style-type: none">We have strengthened compliance for our wealth management segment through standardizing accounting audit of our financial products and improve compliance in the real practice of wealth management business.We have strengthened compliance in our innovation segment, and have requested the creation of an integrated management mechanism for innovation risks across the Bank, so as to ensure smooth launch of various innovative banking products and services within the framework of regulatory compliance.We have been constantly regulating our operations, promoting the “Sunshine Services” and the increasingly optimized management, enhancing our reputational risk management, strengthening protection for consumers’ interests and proactively performing our social responsibilities.

BUSINESS

We acknowledge the significance of the opinions of, and requests from, the CBRC, and have actively adopted internal management and risk control measures as part of our remedial action. The inspections of the CBRC did not have any material adverse effect on our financial condition or results of operations.

The CBRC prohibits PRC banks from providing deposit interest rates higher than the applicable PBOC benchmark interest rate or free gifts to attract depositors. If it finds any violation by any bank in its inspection, it will require such bank to stop providing such high deposit interest rates, and may apply penalties and announce the violation to the public. In June 2010, our Shenzhen branch received a notice from the Shenzhen office of the CBRC requiring one of our sub-branches in Shenzhen to stop providing gifts for deposits. The relevant sub-branch has stopped providing gifts for deposits. As of the Latest Practicable Date, we have not been subject to any penalty by the CBRC for such non-compliance.

The CBRC conducts inspections of information technology systems of PRC banks from time to time. In January 2011, the CBRC engaged an information technology security testing agency to conduct a penetration test of our internet banking and website system. The test had revealed three main issues relating to our internet banking and website system, namely the risk of internal information leakage, potential attacks from phishing websites and inadequate protective measures for information security. The CBRC issued an inspection report and requested us to take some remedial measures in order to address the issues found in the test.

In response to the CBRC inspection report, we adopted various rectification measures, including the following:

- we have conducted a comprehensive safety check on our information technology system in accordance with our penetration test plan and solved those identified system vulnerabilities;
- we have improved our website system development guidelines and put in place an annual training plan for website system development;
- we have further strengthened the safety configuration of our website system and implemented the strengthened safety configuration in April 2011;
- we have established an internal coordination system with a clear responsibility to ensure the integrated management of all newly built website systems and outsourced website systems; and
- we have increased the frequency of self-conducted penetration testing from once a year to twice a year.

We submitted our rectification measures in writing to the CBRC in March 2011 and have not received any further requirements or comments from the CBRC in respect of our information technology systems.

NAO

The NAO conducts audits on state-owned and state-controlled enterprises, including us, in accordance with law. From March 2011 to January 2012, the NAO conducted specified audits on the industry segments of the new loans extended in 2011.

BUSINESS

The NAO noted that since 2011, the total amount of new loans extended has been under control and the industries to which such loans were extended have generally aligned with the policies of the central government on macroeconomic controls, and that the quality of our loan assets has improved. The NAO also identified certain issues, including incidents of non-compliance in loan extensions and misuse of loans at some of our branches and sub-branches. The key issues identified and our rectification measures are summarized below.

Major Issues Identified by the NAO Audit Review	Rectification Measures
<ul style="list-style-type: none">• Lack of strict enforcement of differentiated policies on extending housing mortgage loans We granted approval on a mortgage for a second residential property without pricing the loan at 110% of the benchmark interest rate or obtaining a down payment of at least 50%.	<p>We have adopted rectification measures in a timely manner; complied with regulatory requirements by calling on the relevant borrower to settle, in part or in full, their loans in advance or enter into supplemental loan agreements to strictly enforce floating interest rate requirements; and tightened up review and approval of housing mortgages.</p>
<ul style="list-style-type: none">• Misuse of loan proceeds After we granted a working capital loan to a corporate lender, it was discovered that the corporate lender had provided false financial statements to us and that loan proceeds were improperly diverted to commercial real estate construction projects. A borrower receiving a personal consumption loan inappropriately used the proceeds to purchase commercial real estate.	<p>We have shored up weaknesses in the investigation, examination and approval processes for credit extensions and in post-disbursements management, as well as strengthened (i) our examination of the actual situations of corporate borrowers, (ii) the diversification of our business, (including the examination of corporate group customers that are involved in real estate), (iii) the verification of the authenticity of information provided by corporate customers, and (iv) the supervision and monitoring of post-disbursement use of loan proceeds, in order to effectively prevent such misuse or the application of loan proceeds in restricted areas.</p> <p>We have fully recovered funds that had been misused by certain corporate group customers for commercial real estate construction projects.</p> <p>We have developed plans to clamp down on, and recover from, borrowers who had misused proceeds from personal consumption loans to purchase commercial real estate, as well as to prevent the reoccurrence of these events.</p>

BUSINESS

Major Issues Identified by the NAO Audit Review	Rectification Measures
<ul style="list-style-type: none">• Flow of funds to the public through non-credit extension channels; effect on credit scale statistics and management. Payment (agency) risks involved in granting financing through our inter-bank business are not included in credit scale statistics and management. Certain funds used for wealth management products or negotiable instruments are not included in credit scale statistics and management. Lack of compliance with standard operating procedures in certain aspect of the wealth management business. Certain of our dealings in one corporate fund raising activity did not comply with our standard operating procedures. We advanced certain funds to a recipient who did not raise sufficient capital.	<p>We have, in accordance with regulatory requirements, timely closed certain businesses and taken comprehensive measures to regulate business operations; conducted risk assessments, closely monitored risk profiles, reviewed and optimized the specific business and related management system; worked towards promoting risk and compliance awareness among our staff; and enhanced our management and control.</p> <p>In accordance with regulatory requirements and our auditors' recommendation, we have timely ceased the development of new business that involves inter-bank payment (agency) risks, as well as that involves wealth management and bill-linked products or business operations, and have taken measures to clamp down on advances toward the wealth management projects of certain corporate customer.</p>
<ul style="list-style-type: none">• Risk of non-compliance, revision of scope of approval authority for entrusted loans business Certain individual branches utilized inaccurate risk-based loan classifications. Certain corporate customers occupied a sizable amount of our credit funds, while simultaneously being granted entrusted loans.	<p>We have strengthened our risk classification management of loans and risk classification deviations so as to accurately reflect our asset quality; and organized and supervised investigations and comprehensive rectification measures for non-compliance in extensions of new loans. We have also, among other things, further enhanced our credit management, properly controlled the total amounts, frequency and usages of loans extended, continued to optimize our loan portfolios and complied with the relevant regulations on the practice of charging fees for financial services.</p>

Non-compliance by Employees

From January 1, 2010 to June 30, 2013, 229 of our employees were subject to disciplinary actions as a result of their non-compliance with our internal rules and policies. None of our Directors and senior management has been involved in any of these non-compliances. We believe that these non-compliances have no material adverse impact on our business operations or financial performance.

The Directors are of the view that the findings of the regulatory authorities and the non-compliance incidents did not reveal any material deficiencies in our business operations, internal audit, internal control, or risk management.